INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

economia

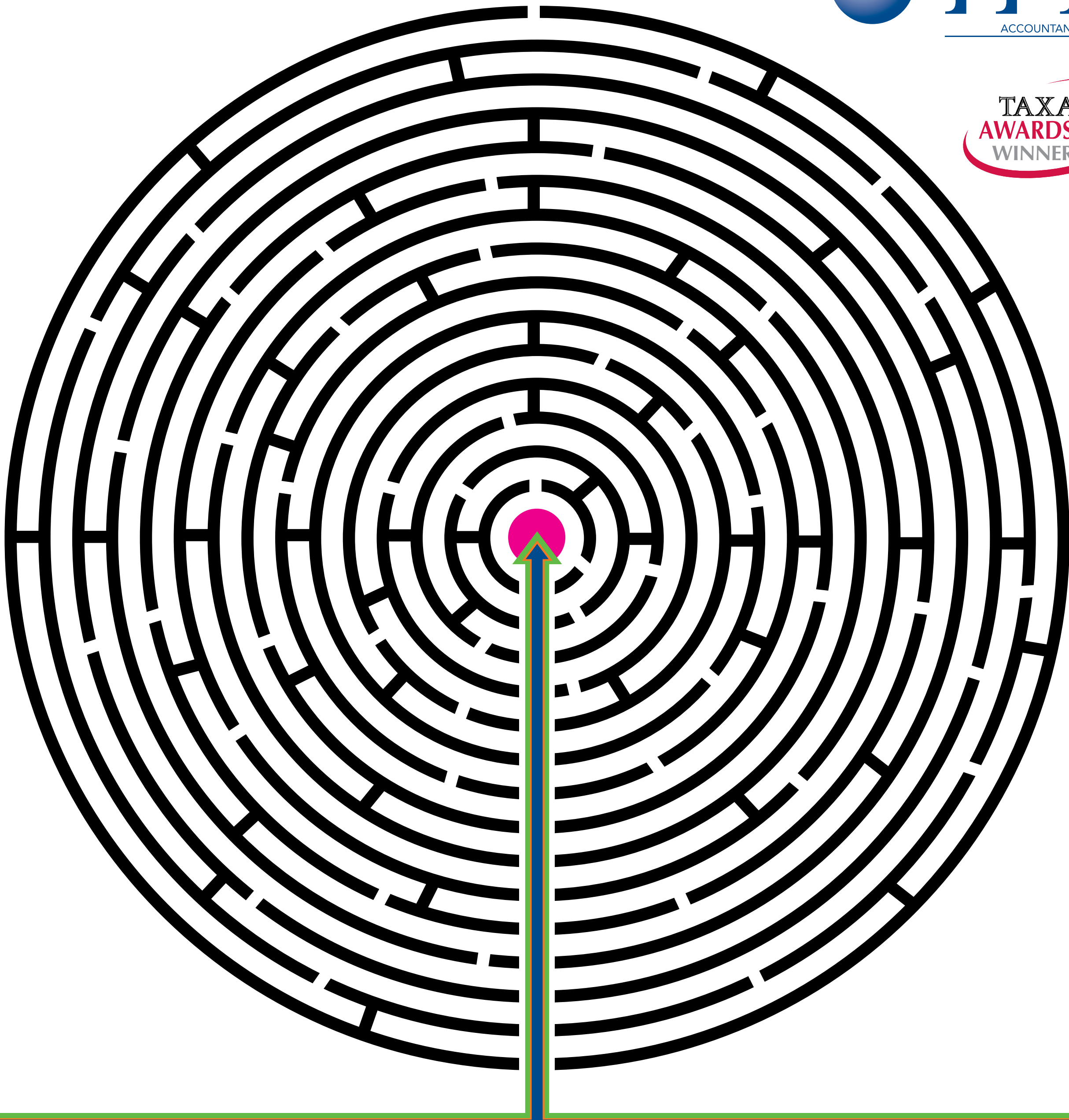
ISSUE 3 | APRIL 2012 | ICAEW.COM/ECONOMIA

BARONESS HOGG ZARIN MEHTA GRAHAM WARD CATHY NEWMAN
NICK SHAXSON MICHAEL DEXTER-SMITH CHRISTOPHER MEYER ANNE TUTT

RESHAPING CAPITALISM RETHINKING BUSINESS

A 17-PAGE SPECIAL REPORT ON HOW OLD ECONOMIC MODELS ARE CHANGING AND WHAT HAPPENS NEXT

SUSTAINABILITY | ETHICAL FINANCE | RUSSIA RISES | SQUEEZED MIDDLE DEBATE



INTELLIGENCE AND INSIGHT FOR ICAEW MEMBERS

economia

It is time for a more considerate capitalism

Coalition governments in the UK have, for the most part, been formed in response to national emergencies. The current coalition has different roots, but it nevertheless finds itself at the helm during an emergency of sorts. The global economy has been in a critical state since 2008, when greed, hubris, an under-regulated financial sector and some high-risk mortgage deals almost brought the house down.

It may be verboten for politicians to talk about green shoots, but as spring approaches there are some signs that the economy is recovering. Still, having experienced the deepest recession for a generation, it is no surprise that the healing process is proving to be slow and painful.

The aftershocks of the banking sector bailout have caused fragility in the eurozone and exposed further flaws in a previously unquestioned system of western capitalism. For the first time, many have begun to doubt previously held certainties about the appropriateness of an economic model built around the demands of short-term shareholder returns. Long-discussed ideas, such as corporate responsibility, sustainable growth and investor stewardship have gained new relevance in the light of these events and received increased attention as they are brought together under the banner of responsible capitalism.

The tents may have been moved from Wall Street and St Paul's churchyard, but the various questions raised by the Occupy movement still demand answers. Politicians seem to have got wind of this popular mood. But we need this to be more than noises off in the Westminster village. It needs to mark the start of a genuine political debate about the role of business in society and its responsibility to a wider range of stakeholders. There is a risk that at the first signs of recovery everyone sighs with relief and slips back to business as usual.

If the recovery is to be sustained, it's time business leaders recognised their responsibilities to the wider community. We need strong leadership – in politics and business – on issues as diverse as executive pay, board representation and corporate governance. We need sustainable, long-term growth. In short, we need to act now before the opportunity for real change is lost.

TIME FOR A NATIONAL DEBATE ON TAX

Tax. It's a three-letter word capable of inspiring a string of four-letter words. And yet it plays an essential role in the development and smooth running of civilised societies. There is an old joke that the least popular phrase in business is, "I'm from the government, I'm here to help". That may be true, but it sounds hollow when talking about vital public services. If your house is on fire, it would be good to hear "I'm a fireman, I'm here to help". And at a time of painful government spending cuts, the negative public reaction to Barclays and its complex tax avoidance schemes is understandable.

To some extent this has become a cultural issue. Barclays, along with most other large corporates, says it complies with "the letter and spirit of the tax code". The problem is that the tax code is too long and too complex. John Whiting, tax director at the Office of Tax Simplification, is right when he says we are in a tax arms race, in which companies and HMRC employ more ingenious schemes to outwit one another, resulting in more legislation.

A national debate on tax must go beyond arguments about avoidance versus evasion. Last month's announcement of annual tax statements, allowing everyone to see what their money is being spent on, needs to be backed up a simpler tax system, so everyone knows what they owe.

The strong leadership called for above means accepting that productive wealth creation means giving some back to others.

Contents
April 2012

CHARLIE BEST

Contents
People and quotes

Some of the influential voices you'll find in this issue

"It will be the fast growth of economies like Brazil, China and India that will spring capitalism from its well-worn grooves" **Christopher Meyer** p28

"If we want responsible capitalism, then tax must come to the very centre of the debates on corporate responsibility"
Nicholas Shaxson p43

"It's not just about the vision – you have to manage things through to the conclusion"
Anne Tutt p20

"I brought Pavarotti to Montreal and put him in an ice hockey arena"
Zarin Mehta p15

"Recovery will come in investment in long-term, sustainable development – and the ability to drive business around value creation"
Tony Manwaring p53

"Keep playing the game, keep making contacts, try as hard as you can"
Michael Dexter-Smith p67

Ray Apted Pharos Group
Dan Ariely Duke University
Scott Barnes Grant Thornton
Clive Bawden Catalyst
Lucian Bebchuk Harvard
Jim Brigden I Spy
Sarah Buckley ICAEW
John Burbidge-King Solutions
Jonathan Coiley Acorn Engineering Group
John Coleman author
Jason Cowley The *New Statesman*
Stephen Dalziel Russo-British Chamber of Commerce
Michael Dexter-Smith Pine Brook Ventures
Paul Druckman International Integrated Reporting Council
Robert Eccles Harvard Business School
John Elkington Volans
Ian Ellis Siemens Building Technologies
Adam Elman M&S
Helen Fenwick Unilever
Mark Freebairn Odgers Berndtson
Teresa Graham chartered accountant
Matthew Hancock MP
Deborah Hargreaves High Pay Commission
Rohan Hewavisenti British Red Cross
Baroness Sarah Hogg Financial Reporting Council
Toni Hunter George Hay
Alex Hyde Grant Thornton
Michael Izza ICAEW
Tim Kerr Novo Altum
Andrew Litchfield AAC Group
Andrew Mack Boston Consulting Group
Tony Manwaring Tomorrow's Company
Jae Mather HW Fisher & Co
Zarin Mehta New York Philharmonic Orchestra
Paul Melling Baker & McKenzie
Christopher Meyer author
Simon Mott-Cowan HW Fisher & Co
Lord Richard Newby Liberal Democrat Treasury spokesman
Cathy Newman *Channel 4 News*
Oliver Nyumbu Caret
David Richardson Lloyds Bank Wholesale Banking and Markets
Phillip Salt Salts Healthcare
Nicholas Shaxson writer
Prem Sikka University of Essex
Richard Spencer ICAEW
Herta von Stiegel Ariya Capital
Anne Tutt independent FD
Chuka Umunna MP
Annemarie Wallis City of Birmingham Symphony Orchestra
Graham Ward
Mike Ward Gateley
John Whitehouse Weatherite
Paul Woolley professor at the LSE

DAN MURRELL

Contributors

EDITORIAL ADVISORY BOARD

CONTRIBUTORS

David Adams
Claire Adler
Christopher Alkan
Anna Ashby
Charlie Best
Neil Davey
Peter Grundy
William Ham Bevan
Gavin Hinks
Lauren Fleishman
Joanna Higgins
Adrian Holliday
Nick Martindale
Lesley Meall
Sophia Schorr-Kon
Nicholas Shaxson
Xenia Taliotis

THANKS TO

Greg Brookes
Deborah Chaplin
Andrew Gambier
Ed Owen
Amy Pirie
Simon Thompson
Kate Wheal

MEMBER PANEL

Clive Bawden
Duncan Cheatle
Dennis Cox
Stephen Dunstan
Carla Edgley
Mark Garratt
Jia Ge
Stuart Jones
Nichola Ross Martin
Fiona Hotston Moore
Rebecca Pridham
Ejaz Ul Haq
Abel T. van Straveren

If you would like to join *economia's* **Member Panel**, please drop us a line at icaew.com/economia/memberspanel

ECONOMIA

Editor Richard Cree
Deputy editor Amy Duff
Features editor Penelope Rance
News editor Julia Irvine
Chief sub-editor Martin Cloake
Deputy chief sub-editor Jacquetta Picton
Sub-editor Rob Haynes
Online editor Helen Roxburgh

Design director Ewan Buck
Art director Shirley Saphir
Senior designer Mehmet Sem
Designer Jemma Phayre
Picture editor Rebecca McClelland
Picture researcher Catherine Hyland
Production manager Sarah Winter

Group sales manager Alex Segger
Display sales manager Nzima Ndangana
Recruitment advertising Louisa Strachan, Tony Hopkins
Business directory Emily Bromfield

Account manager Tina Chauhan
Account executive Natalie Brighty

ICAEW

Director of communications Harry McAdoo
Marketing director Sue Best
Head of IP and publishing Andrea Eklund

PCP

Managing director Dan Davey
Sales director Stuart Charlton
Group editor Michael Jones
Group account director Linda Louis
Production director Angela Derbyshire

CONTACT US

Advertising
020 7936 6931/6708
economia@icaew.com
Recruitment Advertising
020 7920 8535
icaewjobs@icaew.com
Editorial
020 7936 6983
economia@icaew.com

economia is published by Progressive Customer Publishing (PCP)
John Carpenter House
John Carpenter Street
London EC4Y 0AN
progressivecp.com

Printed in the UK by BGP

Subscriptions: www.getthatmag.com/finance.html

ISSN 2049-4009

Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA

T: +44 (0)20 7920 8100

F: +44 (0)20 7920 0547

E: economia@icaew.com

icaew.com/economia

In review

The stories that matter most from the month just gone

Spanish austerity

Angela Merkel, the German chancellor, said the pact signed by 25 member states to balance their budgets or face penalties would "last forever". But then Mariano Rajoy, prime minister of Spain, said he had decided to set a new budget deficit of 5.8% of GDP in 2012 – more than 30% higher than the target agreed by Brussels. In a move that was seen by many as Spanish defiance of the German-led austerity drive, Rajoy said he didn't want to extract €44bn (£36.6bn) from the budget at a time of economic crisis.

"Rudy Kurniawan held himself out to be a wine aficionado with a nose for a counterfeit bottle, but he was the counterfeit"

A California wine collector accused of trying to sell more than $1.3m in counterfeit wine is charged with fraud

OFT revokes licence

The Office of Fair Trading revoked the licence of personal loan broker, Yes Loans, accusing it of "deceitful and oppressive business practices". These included lying to people to trick them into handing over debit or credit card details, charging fees without telling customers and putting some into short-term, high-interest deals rather than deals that offered more affordable credit.

HMRC transparency

According to a report published by the Treasury Sub-Committee, taxpayers must have confidence that HMRC is being even-handed at all times, otherwise rates of voluntary compliance with the tax code could suffer. George Mudie MP, chairman of the sub-committee said, "Serious questions remain about accountability and transparency with respect to HMRC's governance, both at ministerial and at board level."

Greek bond swap

When creditors tendered 85.8% of the €177bn in bonds regulated by Greek law it became the biggest sovereign debt restructuring in history. Greece's finance ministry described the bond swap as a "vote of confidence". But Greece's international lenders had demanded the swap as a condition for the €130bn bailout package.

Green investment

Vince Cable (above) announced Edinburgh and London will host the Green Investment Bank. Angus Macpherson at Esperito Santo Investment Bank said, "Look at how Hyderabad, Bangalore and Silicon Valley became world centres in IT. There was an industry know-how with finance, intellectual know-how in research and all focused in a relatively small place. If you get all three working together, as is happening in Edinburgh, you have the basis for developing a significant centre of expertise."

GETTY IMAGES, PRESS ASSOCIATION, NEWSCAST

GADGET OF THE MONTH
HP Calculator

For three decades, the humble HP 12c has kept the finance industry crunching its numbers. This workmanlike calculator can be found on the desktops of accountants, bankers and estate agents the world over. HP puts its longevity as the financial calculator of choice down to its energy efficiency (even back in the 1980s), clear layout and non-nonsense functionality. You can even get a version of it on the iPhone these days (turn the calculator app into landscape orientation).

To celebrate its 30th anniversary, the company has brought out a limited edition – each one etched with a unique production number and set in a stylish gift box. It doesn't just look good on the outside – the new 12c has improved processing for complex financial calculations, an intuitive interface and the option to save calculations in a memory storage register.

Whether just out of nostalgia for your student days, or because you'd still rather do your sums on a real calculator, get your hands on one of these neo-classics while stocks last.

hp.com/uk

Penelope Rance

Leading businesswomen shortlisted

Veuve Clicquot announced the shortlist for its 40th Veuve Clicquot Business Woman Award. The winner will be announced on 18 April. From left: **Anya Hindmarch,** founder, Anya Hindmarch; **Ruth Rogers,** chef and owner, The River Café; **Helena Morrissey,** chief executive officer, Newton Investment Management

"If I see hands going up in the air, that is a good sign. I can almost predict sales on body language alone"

Pret a Manger chief **Clive Schlee** on its touchy feely philosophy

The month in numbers

£90bn
The amount by which pension shortfalls have increased since QE

80%
The number of CFOs who see revenue opportunities in sustainability, according to Ernst & Young's *Six growing trends in corporate sustainability* report

9.9% Decrease in real disposable incomes for social groups A and B since 2008.

€170m The amount German firm Siemens paid to Greece in an out-of-court settlement over a bribery scandal.

$330m The amount in offshore accounts that convicted bank executive Allen Stanford must forfeit.

441 The number on *Forbes*' World Billionaire List who lost wealth this year.

25bn The number of apps downloaded from the Apple Store.

£2bn The alleged amount by which the London 2012 Olympic budget is overrunning.

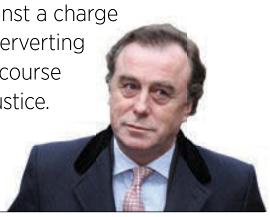
Good news bad news

▲ **Lord Sassoon,** the commercial secretary to the Treasury and former UBS investment banker touted to replace Sir Mervyn King as governor of the Bank of England next year.

▲ **Sunderland,** where Nissan will manufacture its new line of compact cars. Around 2,000 jobs will be created – 400 in manufacturing and the rest within the supply chain.

▲ **Ocado,** which at last gave investors some good news as sales rose to £162.1m. Company plans for a second distribution site launching early 2013 are going "according to plan".

▲ **John Kelsey Fry QC,** who successfully defended Harry Redknapp at a tax fraud trial and who will now defend former Lib Dem Energy Secretary Chris Huhne against a charge of perverting the course of justice.



▲ **Grant Thornton,** which won four of the 10 regional contracts outsourced from the Audit Commission. It will take on around 300 of the former Commission staff.

▼ **Belgians,** as a government study showed that identical groceries cost about 10% more in Belgian supermarkets than they do in the Netherlands and Germany.

▼ **Vladimir Putin's opponents,** who said it was impossible to recognise the results of Russia's 2012 presidential elections.

▼ **The New York Mets,** whose owners have to give back as much as $83m in illegal profits from Bernard Madoff's Ponzi scheme and face trial over another $303m to determine if they acted in bad faith.

▼ **Hong Kong,** where traders saw their lunch break cut from 90 minutes to an hour to align trading hours with major exchanges in Asia. Restaurant owners in the financial district joined in the protests.

▼ **India**, where the government called a halt to all cotton exports and then did a U-turn after a sharp jump in the prices of the commodity. Analysts said New Delhi's sudden backtracking will raise doubts over India's image as a place to do business.

GETTY IMAGES

Talking point

Are banks doing enough to help small businesses?

Stephen Pegge
Director of SME Markets, Lloyds Banking Group

John Walker
National chairman, Federation of Small Businesses

Stephen Pegge: Yes

Is it supply or is it demand? That has been the chicken and egg question for bank lending to SMEs for over two years. The chief executives of six major banks including Lloyds Banking Group have established the Business Finance Taskforce to improve customer relationships, access to broader sources of finance and understanding and dialogue across the sector. So an early response is beginning to answer that question, to do something about the underlying issues, and is beginning to bear fruit.

I've been leading several initiatives including the promotion of mentoring to enhance the confidence, support and finance readiness of new and growing businesses. The first requirement was to ensure mentoring organisations and networks are visible, and easier to select and access by enterprises and potential mentors. The main channel is mentorsme.co.uk. It has had over 250,000 hits.

The banks also pledged to identify, train and make available 1,000 mentors with suitable backgrounds for volunteer mentoring organisations across the UK and 500 are already in place. The 200 mentors from Lloyds already out there are really positive about the experience.

Another important initiative is the new industry appeals process, giving commercial customers the right to have a lending decision reviewed within the bank. That process is independently overseen by external assessors led by Professor Russel Griggs, previously chair of the CBI's SME Council. This should ensure everyone can have confidence in getting a fair hearing and address the concern that many are discouraged from applying for finance due to the perception that banks won't lend.

At Lloyds we've introduced our own Appeals Pledge, as part of our SME Charter, which goes beyond industry-agreed guidelines. We have pledged to resolve 90% of customer appeals within 15 working days, and to make a goodwill payment of £150 wherever a decision is overturned in a customer's favour. This could be why in 2011, we've grown SME lending in a declining market.

If you want to contribute to this debate, go to icaew.com/economia/smelending

John Walker: No

Small firms have really struggled to access finance and we know that for a business looking to grow, getting swift access to affordable finance is key. Latest Federation of Small Businesses (FSB) research shows that two in five businesses that applied for finance in the three months to February – just as Project Merlin was coming to an end – were refused.

However, we have long said that targets were not the right way to get finance to small firms, and the fact that the banks missed their small business lending target shows that. We also know that some businesses are looking to pay down debt. But the figures speak for themselves: it's not getting through and it isn't affordable according to 60% of our members.

In a recent paper, *Alt+ Finance: small firms and access to finance*, the FSB suggested looking at non-bank alternatives so we can move away from a one-size-fits-all system. We want the government to look at ways of promoting these alternative sources of finance, so that small firms have more options open to them than just the high-street banks. Peer-to-peer lending, asset backed finance and community development finance institutions are just a few of the non-bank examples cited in the paper.

In the longer term, the FSB believes government should look at ways of creating the sort of local banking infrastructure that is a feature of the German economy. This would open up local lending facilities to smaller companies.

We also welcomed comments from business secretary Vince Cable that government should start using its influence with these organisations to make sure finance gets to the businesses that need it.

There is no single silver bullet that is going to fix the situation, but if we are going to grow the economy to strengthen the recovery then the small business sector needs to be able to do just that. If that means the government intervening to promote non-bank sources of finance, it should do so in a targeted way that promotes innovation and competition in the sector.

EVENTS TO LOOK OUT FOR

SOLVENCY II
1 May
Unravelling the complex challenges of implementing Solvency II, its regulatory timetable and the role of external assurance.
icaew.com

RESPONSIBLE BUSINESS SUMMIT 2012
8-9 May
Practical advice from companies and CEOs who have built a competitive edge through sustainability and responsible business practices.
events.ethicalcorp.com

FINANCIAL REPORTING FACULTY ROADSHOW
10 May
A clear and up-to-date analysis of all the key developments in UK financial reporting, including updates on the new UK GAAP regime. At Birmingham City FC.
icaew.com

EBRD ANNUAL MEETING AND BUSINESS FORUM
18-19 May
The European Bank for Reconstruction and Development (EBRD) brings its event to London with the theme "Managing in Turbulent Times". Last year it was held in Astana.
ebrd-annual-meeting.com

SUSTAINABLE FINANCE AWARDS
19 June
Hosted at historic central London venue, 8 Northumberland Place, this gala evening ceremony will see the winners of the six Finance for the Future awards announced. As well as enjoying the evening, guests will be able to learn from the winning entries.
financeforthefuture.co.uk

View from the top

The UK needs to change its attitude to risk if we are to kick-start the economy, says ICAEW president Clive Parritt

I learnt a fascinating fact the other day: Deloitte says non-financial British corporates are sitting on record amounts of cash, estimated to be around £731.4bn. Just imagine what persuading them to invest even half that amount in UK businesses could do for our struggling economy.

The trouble is, they are not spending the cash but hanging on to it as an insurance policy in case of further economic woes. As a result, many of our innovative small and medium-sized companies fail to thrive, or fall into the hands of foreign companies which are prepared to stick their necks – and their cash – out.

Take the example of British bus maker Optare, which I was alerted to by City Grump in *Real Business*. This small company sought £12m in credit and finance to fund a major expansion in its order book, which it had grown from £24m to £55m over the preceding 12 months. Despite cutting its debt by 75% and forming an alliance with successful Indian commercial vehicle manufacturer Ashok Leyland, which owned 26% of its shares, it was unable to persuade the government, its bankers or its UK corporate shareholders to invest.

Ashok Leyland proved more courageous: in January it took its shareholding up to 75%, injecting £4m at an 80% discount to Optare's then share price, and so providing the credit line the company needed.

I know I've said it before but it bears repeating: if we want this country to grow, we've all got to encourage home-grown investment in businesses.

Wearing my hat as chairman of a venture capital trust, I come across many really interesting small businesses in the UK that are doing well because they have skilled management teams with innovative products and ideas, and private equity companies supporting them and helping them grow.

But it's not enough. I believe we need a real cultural shift of attitude in the UK if we are to kick-start economic growth. At the moment, we seem to think that making money is a sin. It brings to mind that old adage: if you see someone driving a Rolls-Royce down the street in the UK, people will spit on it. In America people say, "I'm going to have one of those" and endeavour to go out and make the money to do it.

You'll find that same entrepreneurial and risk-taking spirit in the Far East as well, and we could do with encouraging it here. Tax relief for all investors in smaller companies would be a good start. That, and a healthy dose of confidence.

If you have any views about this opinion, please get in touch by emailing president@icaew.com or join the debate on our website icaew.com/economia

CHRIS LEE

As I see it

Zarin Mehta, president, the New York Philharmonic Orchestra

Appointed as executive director of the New York Philharmonic Orchestra in 2000, Zarin Mehta is now regarded as one of the world's leading arts administrators. He tells Amy Duff about training in London in the 1950s, getting Pavarotti to Montreal, and receiving the ICAEW Lifetime Achievement Award

What was your childhood ambition? My brother and I were discouraged from following in my father's footsteps [the late violinist and founder of the Bombay Symphony Orchestra, Mehli Mehta]. I had an affinity for figures, so an uncle suggested I go to London and serve articles.

What did accountancy training give you? An extremely broad business knowledge. That I was successful as a partner at Coopers & Lybrand, where you develop relationships, is something I've had to do in this business. It's marketing, raising money, reading people... It's the whole aspect of running, effectively, a small business.

How did Credit Suisse get involved with sponsoring the New York Philharmonic? They were looking to expand their brand, and we travelled more than any other North American orchestra. It seemed like a match made in heaven.

What have you most enjoyed? The music is so much part of my life. When I served articles in London I'd go to the Royal Festival Hall or Royal Opera House three times a week. It was standing room in those days – half a crown. When I moved into managing the orchestra 10 years after Coopers & Lybrand it seemed like an easy, seamless transition.

What have been the challenges? Since 9/11 it has been difficult. Problems hit New York more than anywhere, which had an effect on our funding and our endowment funds. We were doing well until Lehmans collapsed, which had a further effect. We're blowing our way back out of that.

What are you most proud of? When I took the orchestra to North Korea it was a unique adventure. I can't imagine repeating that. When I brought Pavarotti to Montreal and put him in an ice hockey arena for 10,000 people, nobody thought an orchestra could work in an arena. That is entrepreneurship – that's what the accounting profession taught me.

How do you get things done? I have a positive attitude, I learn from my mistakes and have been told by my staff that affects them as well – they're solution-driven people.

Who do you admire? My father gave me ethics, hard work, honesty, all those God-given traits, but he really believed in them. The Mayor of Montreal in the 1960s and 1970s was such an influence on me when I went to the Montreal Symphony Orchestra. We worked closely to make it into an international orchestra and he helped us get recording contracts and funding for tours.

What would you still like to achieve? I will not renew my contract at the end of this season so I'm looking forward to seeing what it's like not to work. I landed in London at 16 and have not had more than 10 days where I have not had a job. I have no idea what that's going to feel like. I hope the phone starts ringing with people saying, "We need your help".

What does the lifetime achievement award mean? I was flabbergasted, thrilled. I went through a lot of hard work and toil in the 1950s doing night courses and living alone in digs, to have this from ICAEW is really quite emotional.

See a video interview with Zarin at icaew.com/economia

Career path

Encourage success with fair pay and let those who do a bad job go without a penny

Mark Freebairn

I've always been a glutton for punishment, ever since the age of 12 when I decided it would be a great idea to chuck an illegal Chinese throwing star at a freshly painted wall in my headmaster's classroom. If a point (or six) is worth making then it's worth making whatever the consequence. Which is why I find myself drawn to writing an article about remuneration.

Let me make some points clear. Firstly – I am wholeheartedly a capitalist. Secondly, my starting salary was £14,000 a year. Thirdly, I say what I believe and not what I've been told to believe.

Running a business is hard work – 18-hour days six and a half days a week, missed birthdays and school plays, heart attack, early baldness (look at the picture). Not many can do it. Far fewer can do it successfully for long.

We live and work in a global business environment. Someone who can do well at Tesco or Unilever can do well at Apple or Pepsi. The UK has some talented business people who run businesses that employ thousands. They pay taxes – individually and corporately – and so do the people who work for the businesses they run. These people are essential to the success of this country and we should pay them fairly, take half of it back in tax and let them get on and be successful.

No one wants to reward failure. If you do a bad job then you should be let go and not paid a penny, but employment lawyers structure deals to prevent this. In the case of a Mr Abramovich, that's proved rather costly.

Footballers provide a useful example. Lots of people think they could run Marks & Spencer but few believe they could be a striker at Chelsea. Very few could do either successfully. If the market dictates a Chelsea striker gets paid one sum, and that the CEO of M&S gets another, if shareholders agree and the remuneration committee (for Chelsea these are the same person) agrees too, then I am not sure moral outrage, however understandable during these tough times, is justified, regardless of the papers it sells and votes it wins.

There are failures in the system. Some people are paid more than they should be, in football as well as in business. I want people who do a good job and contribute to the country to get a salary package that the market determines is fair.

Mark Freebairn is partner and head of financial management practice at recruitment consultancy Odgers Berndtson

Company car costs

From 6 April the Qualifying Low Emission Car Category (QUALEC) will be removed, which means some employers and drivers of company cars could pay more tax. A QUALEC car is one that was registered after 1 January 1998 with a CO_2 emissions figure below 120g/km.

For vehicles with CO_2 emissions below this, the percentage used for calculating company car tax is 10% (with the exception of vehicles who have a CO_2 of 75g/km or less where the percentage is 5%, and vehicles who have zero emissions where there is no charge.) From 6 April the QUALEC category will be removed, increasing the Benefit-in-Kind (BIK) rate for cars with CO_2 emissions between 100 and 120g/km. This is set to increase further by 1% from 2013/14 for all bands above 76 to 99g/km.

The increase to Employers NI and employees BIK will impact on all cars on order, or with a driver from the start of the 2012 tax year, so fleets and drivers should plan for any likely increases in costs.

ICAEW EVERYBODY COUNTS AWARDS

Volunteers who devote time and effort outside work to charitable or community projects could win £2,000 for their chosen charity or organisation, with ICAEW's Everybody Counts Awards.

Last year's winners included tax consultant Clare Jones (pictured with ICAEW President Clive Parritt), who volunteers as treasurer of homeless charity the Wellspring and Nisar Butt, who helped to set up Humanity First, which sends out volunteers, doctors and engineers to provide relief to areas after natural disasters.

The closing date for nominations is 27 April.

For further information email jade.peters@icaew.com. You can also visit icaew.com/everybodycounts

THE BIG IDEA
Rosabeth Moss Kanter
Organisational culture

Who is she? She holds the Ernest L Arbuckle Professorship at Harvard Business School and is one of the world's most respected and influential writers and thinkers looking at leadership, strategy and change management.

So she covers all the big stuff? She certainly isn't afraid to tackle big questions. Her 2009 book *Supercorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good* examined the impact of the 2008 crash and subsequent recession on organisational structures and models. Perhaps unsurprisingly, she views the existing model of capitalism, where companies focus on short-term shareholder returns, as broken.

So what was the conclusion? One feature of her work is that rather than arriving at an academic theory or conclusion and then trying to find the facts to back it up, she grounds her writing in research, basing conclusions on real-life examples where possible. In *Supercorp* she effectively presented a manifesto for sustainable business featuring companies that were succeeding by responding to customers' needs and making decisions taking into consideration the long-term interests of all an organisation's stakeholders.

What else has she written about? Her scope is anything that matters to CEOs. Before *Supercorp* she wrote about the importance of confidence in influencing success and driving high performance, for organisations and individuals. And one of her most successful books, *Men and Women of the Corporation*, has become a classic and is essential reading for anyone interested in the diversity debate.

That's quite a range. It's true, unlike some management gurus, Moss Kanter hasn't developed one idea and rehashed it several times. Partly because her work is so research-focused, she always discovers new and interesting ideas.

Any common themes? The need for innovation and the importance of managing the constant change that it throws up is the closest thing Moss Kanter has to a trademark idea. That and the need for gathering her insights from research.

If I ruled the world

Every month, we ask prominent figures how they'd handle the biggest job of all

Teresa Graham

In his UN Global Compact speech in 2001, Kofi Annan exhorted his audience to use capitalism to do good. If I ruled the world, that's what I would do. I'd use capitalism to increase my war chest through deregulation and capacity building in SMEs. I would start by sunsetting all regulation but, with a bow to the faint-hearted, I'd do this over five years. To maintain pressure during my crusade, I would practise what I helped create – one in, one out – but in an accelerated form to be known globally as one in, 10 out. Any regulatory reinstatement will be forbidden unless it puts children and the earth at its heart and, of course, it would be goal-based – there will be no room for prescription in my new world.

All those involved in re-drafting will attend a six week intensive course in one of my newly created Universities of Common Sense and a gap three week period in an SME, learning about what makes them tick as well as how to create more effective regulation. In future all language will be fluent, concise and clear like the Lord's Prayer (59 words), The 10 Commandments (290 words) and even the US *Declaration of Independence* (1,325 words). But certainly not like the authors of the EC directive on the importance of caramel colours who found their subject worthy of more than 25,000 words.

With my war chest overflowing through improving productivity and reducing bureaucracy, I would turn my attention to the one billion people living in informal settlements (shacks, mud huts and other slum dwellings) without water and sanitation and usually unsafe. Urbanisation will be with us forever and, in fact, people clusters are good for business and business is key to independence.

What's needed is a leg up, not a hand-out. Dependency is stultifying and I would provide all with the new iShack – a robust dwelling insulated with Tetra Paks and built with adobe and walls of corrugated iron. A solar pack provides light for security and energy for cooking and there should be enough of a garden area around to grow food, and an integrated water management system.

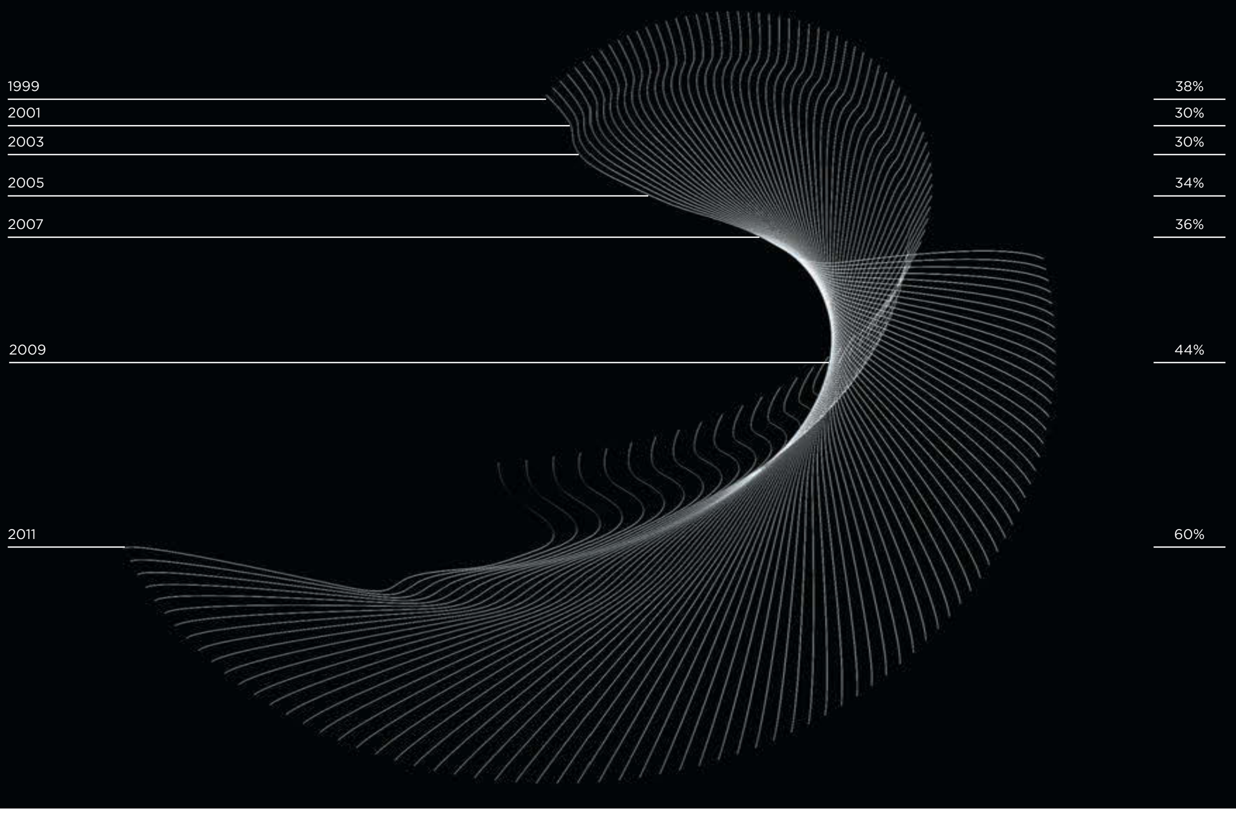
I'm ticking all three of Maslow's hierarchy of needs boxes – shelter, food and security – and all for a price of $350 a shack. All supplied, constructed and maintained locally thereby spawning lots of new businesses. And all benefitting from relaxation of regulatory torture.

Teresa Graham is an ICAEW Chartered Accountant and non-executive director at social enterprise the Lexi Cinema

MARTIN ARGLES / GUARDIAN NEWS & MEDIA LTD

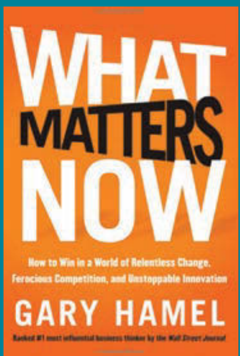
The graph
Irresponsible capitalism

The top section of the graph shows UK national debt as a proportion of GDP at 38% in 1999. Now, debt stands at a massive 63% of GDP. The 3-D pattern is a physical expression of the explosion in national debt since the crash. It also provides this month's cover image



PAUL WOOTTON, SOURCE:ONS

BOOK REVIEW
What Matters Now
By Gary Hamel



Ranked by the *Wall Street Journal* as the most influential business thinker in the world, Gary Hamel's books regularly appear on the lists of management bestsellers. Why? Partly because he regularly coins phrases that strategists love (a good example is core competencies). But he's also prepared to publicly thrash out new ideas that challenge the status quo. And his material is punchy.

In his new book, *What Matters Now*, a typically bombastic Hamel identifies what he sees as the five issues that are central to business success in an age where trust has been lost, nothing is certain and the future of capitalism is under threat.

These make-or-break issues are: values, innovation, adaptability, passion and ideology. Hamel is here attempting to layout a clear blueprint for readers to create organisations that are fit for the future. It's the sort of challenge that most other writers would flinch at, but which Hamel relishes. He writes, "This is an impassioned plea to reinvent management – to rethink the fundamental assumptions we have about capitalism, institutions and life at work. These are thorny issues. To tackle them, we have to venture beyond the familiar."

So how does Hamel suggest that leaders clear what he calls (with his usual flourish) "the groundwater of business that's now heavily contaminated with the runoff from morally blinkered egomania"?

He calls for a more "conscientious, accountable and sustainable sort of capitalism" by encouraging leaders to break down silos, to feel and become more responsive, to show initiative, to become more efficient and responsible, to aim higher...

Is there anything groundbreaking and easily applicable here? Probably not. But *What Matters Now* is a thought-provoking and relevant book for our time that should inspire change, even if it doesn't prescribe it.
Amy Duff

Tales from the front line

Real stories from the cutting edge of business and finance

Anne Tutt

Independent FD of a portfolio of not-for-profit organisations

The board positions and non-executive directorships on Anne Tutt's CV read like those of a retired accountant giving back to society. In reality, Tutt's résumé represents a new model of portfolio career – in which the need to make a living is balanced with the desire to feel fulfilled.

"I am trying to find the balance between working and volunteering," she says. "I work with non-profit organisations who couldn't afford to employ a finance person. The challenge is getting enough paid work. I'm up against retired people who take on non-executive directorships as a hobby, but I need to get paid so I can do the unpaid work."

In 2005, she left her position as managing director, UK & Benelux of RL Polk, a US automotive consultancy, to move into the public/not-for-profit sectors. Her career had encompassed financial directorships of vehicle management service provider Arval, research and development company Adas Holdings, and Boulton and Paul, which manufactures building products.

Arval had a turnover of £3bn but the biggest challenge in the non-profit sector is lack of money. "Funding and maintaining a sustainable business is the hardest thing," she says. "No matter how worthy your objective, you have to have the funds."

So why did she leave a high-powered position? "I had been FD in private sector companies, working long hours within organisations who didn't value the work I was doing," Tutt recalls. "My life was slipping away and all I was doing was working. I have so much experience I can offer to organisations that really want it. And I'd like to do that now, not when I retire. Because it's my career, I can be more focused. I look at the role as a professional FD would.

"I'm not earning the kind of salary I used to as an FD in a medium-sized or large organisation. But you have more flexibility – once meetings are in the diary, the rest of the time is yours."

Now 58, Tutt uses this flexibility to spend time with friends, go horse riding and skiing – and volunteer. "One motivation for leaving industry was to volunteer in Malawi with my husband, who was retired," she says. With Bwengu Projects, the couple raised funds for the renovation of a medical centre. This, along with her personal experience of the hospital system during the illness and deaths of her husband and mother, spurred her involvement with Oxford University Hospitals NHS Trust. She is a non-executive director and a member of the audit and remuneration committees.

"The NHS is a minefield," she says, "but I felt I could add something, both with financial skills and from patient experience. I do a lot of audit committee work – there's good practice that should be shared between the public and private sectors and the NHS. Then I ended up in hospital after breaking my shoulder skiing, and went through the process from admission to outpatients. They made a video of me for training purposes. It was a powerful way of showing the system from the patient's perspective."

Her non-executive directorships and strategic finance consulting clients include Defra, the Identity and Passport Service, the Home Office, the Social Investment Business and Bamboo Innovations, which has developed an internet game to teach young people about finance.

The voluntary roles involve working with non-profit organisations to develop business plans. She's helping Bomber Command Heritage to plan an education and heritage centre, and The Cochrane Collaboration, which publishes medical research.

Tutt cites her mother as one of her biggest influences. "She was the sort of person who missed out on going to university when the Second World War started," she says. "Opportunities were restricted, so her philosophy was take advantage of every one that comes your way."

Another was Ron Denny, chief executive of electronics company Rediffusion. "He was very influential in my career, making me FD in my early thirties. He had the vision to see that although I might not be polished, he could help me develop the skills."

But no one influenced her shift from industry to the public/not-for-profit sectors. "The desire to change was within me," she says. "I had focused on money and profit for lots of large organisations but I needed to do something to help other people.

"The lesson I've learned is that I need to enjoy what I'm doing. It's not just about the vision – you have to manage things through to the conclusion.

"My philosophy is to have fun in life. Be open and transparent and try to make other people's lives better. And you've got to work hard."

"The lesson I've learned is that I need to enjoy what I'm doing. It's not just about the vision – you have to manage things through to the conclusion"

LINDA BROWNLEE

Michael Izza

How the G20 can boost growth

When the G20 meets in Mexico at Los Cabos in June, there is likely to be one issue topping the agenda: how to stimulate growth on a global scale. Of course, this is predominantly a western European and North American issue as the aftershocks of the financial crisis continue to reverberate. But there are problems with uncontrolled growth as well. It was interesting to see last month's announcement by Chinese premier Wen Jiabao that he intended to put the brakes on the Chinese economy. The country, he said, needed to boost consumer demand and address the issue of "unsustainable development".

These days the G20 is the nearest thing we've got to a de facto world government, given that the Bretton Woods institutions are looking increasingly like they belong to a different era. It is certainly the only policy group currently with the clout to come up with workable economic solutions on the world stage. Yet, its track record to date is not impressive.

Since its inaugural meeting in 2008, the G20 has produced a number of communiqués but failed to follow them through. In several cases, they have been overtaken by events: the London summit in 2009, for example, turned out to be a damp squib, while any good intentions from the French summit in 2010 were submerged by the eurozone crisis.

So what is ICAEW asking for that would make the G20 more effective? First, rather than have a transient support unit, we think a permanent team for each presidency, based in one of the new economies, would be positive.

Second, the G20 must continue to resist the erection of trade barriers. Brazil is top of the list of offenders, but there's a lot of rhetoric in the US about bringing back American jobs. Nor is Europe immune. Witness the outcry in the UK when the Thameslink train contract went to Siemens last year, rather than to Bombardier's Derby-based subsidiary. Commentators pointed out that France and Germany don't award contracts outside their borders.

Then there is the issue of public finances. As chartered accountants, we know what high standards of reporting management and controls are required of private sector companies. Sadly, we don't see that mirrored in all governments' accounting around the world. Yet those standards form a crucial part of ensuring financial stability. If the stewardship that has been shown in Greece had been found in a private sector entity, the management and auditors would surely be on trial by now on criminal charges.

Some governments are better than others, of course. Last year we applauded when the UK launched the world's first set of Whole of Government Accounts. It would be good to see other governments jumping on that bandwagon.

The G20 has shown its worth at moments of crisis but if it really is to be a global leader, it needs to use the Mexican summit to come up with clear, achievable policies and then put in much more effort over the long term to ensure they are implemented.

Michael Izza
ICAEW chief executive

Your feedback

How does a chartered accountant make the career move to occupational psychology? Is accountancy still seen as a man's profession? If you could ask George Osborne one thing, what would it be? These are some of the questions raised online this month that have brought some strong opinions to the fore. Our week focusing on women in finance also provoked debate about the issue of boardroom gender balance, and our analysis of how to help unemployed chartered accountants find work offered tips for those out of work. Visit the *economia* site for daily news, fresh content and exclusive online analysis, where you can rate stories, share articles and post your comments. Here are some of the comments you've made online.

Squeezed middle

It is quite a challenge to replicate Germany's Mittelstand in the UK. Most high-street banks are not regional but national or international concerns and few people have a vocational urge to become an engineer or to run a manufacturing company. But there are engineering companies in a few sectors, such as motor racing, which make high-value products. Perhaps our Mittelstand could grow through some of these companies diversifying into other areas.
Comment by Duncan Lyons

PORTRAITS DAN MURRELL

Email: economia@icaew.com
twitter.com/economiamag
facebook.com/economiamag
LinkedIn group: economiamagazine

There are two Mittelstands in Europe, in northern Italy and in Germany. The key to both is a family that is committed to growing the business and that affords itself only what its company can afford. In the UK, the majority of those creating a business have an exit strategy. In the Mittelstand, there is no need because there is no intention to sell. This emphasis on the long term, started a long time ago, is what makes them so successful.
Comment by Paul Samengo-Turner

I totally agree on the plight of the "squeezed middle". However, the M in this context should include businesses lower than £15m. I've seen many businesses hit a glass ceiling at £8-10m. If M extends to capture some of those, it might act as a catalyst to get businesses to break through to the next level of growth.
Comment by Simon Nash

Editor's blog

In his blog, Richard's Cree says, "Access to finance for small firms has been an issue for years, and it was before the crash. That's because they are inherently risky and banks price lending accordingly." I accept they are "risky" but I would be interested in knowing losses as a proportion of lending to micro and small businesses compared to non SMEs.
Comment by Stuart Jones

Debate on Sarah Dale's "lion taming" piece

Given that people embark on an accountancy qualification from a range of academic backgrounds, why do they make that choice? I suspect many are able learners who see accountancy as a well paid job and a qualification that can be used in a range of business careers. Some will fail early but for those who stick it out I suspect that, after a few years, it is common to want a change. By then they probably have a reasonable income and commitments that create substantial barriers to making a major change of direction. Instead of a wealth of varied opportunities opening up for them, they find they are stuck in a bit of a rut.
Comment by Alan Butterworth

I sometimes think that psychology and accountancy are closely related. I did my first degree in psychology before training as an accountant. I saw accountancy as a fascinating way of viewing complex human behaviour. After all, business is a uniquely human activity. After 30 years of my career, I am able to see that the way individual businesses are structured and run can provide great insights into the dominant characteristics of their directors and managers. I agree with Sarah that no experience in life is wasted. Our creative brains will always find a way of applying lessons of the past to today's challenges.
Comment by Simon Bruce

I came into accountancy almost by default. I love parts of the profession, but like many I've questioned my long-term position. For me, it is finding a niche within the profession and finding other outlets for my creativity, such as creative writing or helping friends and family build websites for their small businesses.
I love hearing about the further reaches of what the profession can bring, and hope *economia* will build on this subject in future issues. For example, interviewing accountants working in odd locations, or having an unusual or highly attractive role. After all, even accountants like to dream.
Comment by Rebecca Pridham

SOCIAL MEDIA

Twitter @economiamag

Our series on women in finance, Squeezed Middle campaign and the #Finance100 have prompted lively debate on Twitter.

@faceofboe @economiamag I would not be frustrated to be the recipient of tokenism. I'm fed up of sitting in meetings where I'm the only woman

Elaine Clark @cheapaccounting RT@ economiamag: Only 9% of CEOs globally are women bit.ly/yo9pOE // more interesting things to do perhaps

Sarah Buckley @Sarah_Buckley In uncertain economic climate, #sqzmid biz want constancy not 'fiddling + tweaking' from govt **@economiamag @ICAEW @ LloydsBankingGp**

JoeTaxpayer @JoeTaxpayerBlog RT@Nouriel: I am ranked #1 in the Twitter #Finance100 ranking of Top Finance Influencers in the World. bit.ly/yPIO6a > Well Deserved

LinkedIn group economiamagazine

On our LinkedIn group, we asked, "If you could make one request of chancellor George Osborne – what would it be?"

Ken Frost MA • Simplify the tax system!

Barry Gilbertson • Generate incentives for private sector business lending… if the banks won't do it, why shouldn't organisations get a tax break for lending to SMEs?

Sylvia Lewis • Help the pubs who are closing down due to high VAT which is crippling them, also the cheaper supermarket drink which they cannot buy cheaper from their breweries, they help people who are lonely socialise

Della Hudson FCA • Don't mess with the VAT rate again. It creates extra work for businesses and for their accountants sorting out the errors

Raymond Burch • Get rid of 90% of tax rules and regulations, allowing more effort to go into productive measures

• *We reserve the right to edit comments*

Cathy Newman

Clarity, evasion and a lack of horse sense

Chris Grayling couldn't have been clearer. In fact, in a three-minute interview, the employment minister told me four times he was "absolutely clear" and five times that the government's work experience scheme was "purely voluntary". In other words, contrary to the claims of protesters, the unemployed weren't being forced, slave-labour style, into unpaid work, shelf-stacking for the large supermarkets. On the contrary, they had the option of entirely voluntary work experience at a range of blue-chip companies, offering them the opportunity to brush up their skills and land a proper, paid job. But things are rarely that clear-cut in the Westminster village.

The row started when campaigners – dismissed as "Trotskyists" and "job snobs" by the work and pensions secretary Iain Duncan Smith – raised concerns that big companies such as Asda and Tesco were getting free labour from the unemployed, at the expense of paid workers who saw their hours docked.

After several firms pulled out of the scheme, the government tried to persuade the media the "Trots" had got it wrong. Grayling pointed out that jobless people taking part in the scheme had a week's "cooling-off" period, where they could pull out yet still keep their benefits.

But a letter we unearthed suggested otherwise. Sent out by Job Centres up and down the country, it made it clear that jobseekers would get their benefits docked not only if they gave up once the week's trial was over, but also if they "fail to start" in the first place. No cooling-off period there.

You can see the letter, and Grayling's "absolutely clear" interview on the Channel 4 website. The next day the government announced that if jobseekers quit their work experience, they'd only get their benefits docked for "gross misconduct". This suggests that ministers are now making good their promises of a "purely voluntary" scheme.

It's a shame the hoo-ha obscured the merits of the work experience programme. Former M&S boss Sir Stuart Rose called on his corporate colleagues to stick with the government. With unemployment rising, and one in five young people looking for jobs – a record high – it's easy to sympathise with him. But ministers really haven't helped themselves by appearing so evasive. Almost as evasive as when discussing a different welfare scheme, the Work Programme. The government hires private companies to get the long-term unemployed off benefits and into work. And ministers make no bones about the fact that, unlike the work experience initiative, this is mandatory.

Ministers really haven't helped themselves by appearing so evasive

So why then – as my colleagues on the *FactCheck* team discovered – did a sentence about the obligatory nature of the Work Programme go awol from the guidance issued to private contractors on the work and pensions department website? It advised the companies they "must mandate" jobseekers to carry out work experience as part of their work programme activities. Now that sentence has disappeared, is the Work Programme more optional than it was? Don't expect much clarity from the DWP. A spokesman told *FactCheck*, "The changes to the website were just part of a regular update. We regularly revise documents for clarity purposes." Clarity?

We asked the spokesman if it was still government policy to "mandate" participants in the Work Programme, and all she could say was, "I'm not saying the advice is wrong."

It shows how much damage can be done if the government's not straight with the media and the public. On the evidence of "horsegate", it seems that's a lesson David Cameron has yet to learn.

Over a period of several days *The Daily Telegraph* asked about reports the PM had gone riding with former News International boss Rebekah Brooks, and that she'd been loaned a retired police horse called Raisa. Downing Street at first tried to laugh off the inquiries with gags about all things equestrian. Then the PM himself entered the fray, saying it was "a matter of record" he'd gone out riding with Brooks's husband in his constituency. He added, "Since becoming prime minister, I may have got on a horse once, but not that one." That same afternoon, Downing Street was forced to admit it was "likely" he did indeed ride Raisa.

Like Grayling, Cameron could have avoided looking slippery if he'd checked his facts and stuck to them. Then again, if Westminster was that straightforward my job wouldn't be half as interesting.

Cathy Newman presents *Channel 4 News*. Her FactCheck blog can be found at channel4.com/factcheck

Jason Cowley

Breakthrough or bust

British politics feels deadlocked. The fervour and energy of those early months of the coalition government, when it seemed fleetingly as if we were on the edge of a progressive realignment of our politics, have long since passed. All three main parties are looking for a Big Idea to transform the debate and with it their fortunes. We are close to entering the mid-term of the coalition but many of its much-vaunted reforms, especially on health and welfare, are meeting firm resistance. If a general election were held in May, there would be another hung parliament.

The mission of this government at its inception was simultaneously to cut the demand for and supply of the state. Remember the Big Society and all that optimistic chatter about the delights of voluntarism and the "little platoons" of civil society?

"There is such a thing as society," David Cameron once said, in a gentle rebuke to Margaret Thatcher, "it's just not the same thing as the state." Nowadays, he doesn't speak much like that, and I can't recall the last time I heard him or one of his senior lieutenants discussing the Big Society, even in abstract. Instead, the attritional processes of day-to-day government have supplanted ideas and blue-sky thinking.

All three main party leaders agree that there are deep structural problems with the British economy. They speak of the need to rebalance it away from an over-reliance on financial services and the City of London. Labour has not been forgiven for entering the recession with a small structural deficit. "Labour's real fiscal mistake," says Nick Pearce, head of the IPPR think-tank and a former adviser to Gordon Brown, "was consistently to overestimate the growth in tax revenues [from the financial sector]. It mistook the buoyancy of revenues from the housing market and the City for a secure and sustainable tax base."

A quarter of all corporation tax came from financial services before the crash, says Pearce. This revenue fell from £10.3bn in 2007/08 to £4.5bn in 2009/10, while stamp and share duties fell from £14.1bn to £7.9bn.

Conscious of the mistakes made by Labour in government, Ed Miliband has called for a more "responsible capitalism" and contrasted it with what he called "predator" capitalism. Clearly in these straitened times, the question of how to distribute scarce resources is more important than ever. David Cameron and Nick Clegg also bemoan the excesses and failures of "crony capitalism" – Cameron seemed to delight in the humiliation of Fred Goodwin, the disgraced former head of the Royal Bank of Scotland who was recently stripped of his knighthood.

> **What is in doubt is whether the market system itself is broken or merely in need of reform**

But so far the party leaders seem to be striking merely rhetorical positions. It's easy to denounce the grotesque inequalities created by a winner-take-all global financial system. It's much harder fundamentally reforming a system in one country alone, especially when markets are global.

The *Financial Times* recently published a series of articles entitled "Capitalism in Crisis", with contributions from billionaire financier George Soros, former US Treasury secretary Larry Summers and chancellor George Osborne, among other A-listers.

That market capitalism is in crisis isn't in doubt. What is in doubt is whether the market system itself is fundamentally broken (or inherently flawed, as the Marxists would say) and must be rebuilt, or whether it is merely in need of reform and improved regulation. Larry Summers believes it is the latter – that if and when, as he puts it, "macro-economic policies are appropriately adjusted, much of the contemporary concern will fade away" – as do Osborne and Cameron, whom one might call "soft" reformers. For them, our economic problems are less to do with a crisis of capitalism than one of government.

By contrast Ed Miliband is a "hard" reformer: he believes the very ideology, or system, of capitalism is flawed. "Sometimes in government it felt like instead of building the new economy we were spending money to patch up the failures of the economy we inherited," he said in a speech to London Citizens in January.

The trouble for him is that so far he has struggled to show how he would build the new economy. Rhetoric can only take you so far in opposition. Before too long Miliband will need to explain exactly what he means by responsible and predatory capitalism and how he and other hard reformers can effect the grand economic transformation for which they yearn and believe is so necessary to create the good society.

Jason Cowley is editor of the *New Statesman*

Christopher Meyer

The main trend is evolution

Capitalism is in crisis. Look at the UK politicians falling over each other to name its sins. Tune in to Davos and hear World Economic Forum founder Klaus Schwab proclaiming it "no longer fits the world around us." Listen to America's Occupy movement declaring it dead. But capitalism won't be dying anytime soon. It is busy evolving into a new form.

Capitalism has always adapted as its surrounding conditions change. Beyond a few fundamentals – that it features private ownership and relies heavily on markets to allocate resources – it has no formal definition or set of rules it must adhere to. It is only what capitalists believe and do, and it changes when the bulk of capitalists start doing something different.

The current sense of crisis reflects the fact that major change is overdue. That is thanks in part to an unprecedented change in underlying conditions; the geography, demography, and technology of global trade are all in the middle of profound shifts. It's also because some strong feedback loops have reinforced old behaviours, allowing them to outlive their relevance.

One striking sign of overdue change is the refusal by many firms to "own their impact". Thanks to advances in measurement technology, we now have much greater knowledge of, say, the environmental damage caused by production processes, or the social costs of sourcing practices. But management has not caught up to measurement in today's capitalist system. Terrified of legal exposure and honouring the shareholder above other stakeholders, most firms resist taking responsibility for impacts traditionally considered externalities.

But change is coming, because even though firms might like to turn a blind eye to measurable impacts, other people are measuring. Just ask Apple, whose supply chain has been thoroughly scrutinised lately by social justice watchdogs and found to be lacking.

The real sign that capitalism is evolving, however, is that some managers are getting excited about the fact that better measurement is making more of their impact manageable. Take Luiz Seabra, the founder of Brazilian cosmetics giant Natura. Once the company reached a certain scale, he recognised that its choices of ingredients had real repercussions for land use and farmers. He also realised its selling model, featuring home-based agents, made Natura a source of skills training for many women who had never worked outside the home. Finally the company's advertising needn't sell products by playing on women's anxiety about ageing, but could celebrate female confidence.

It makes sense to look for change in parts of the world least invested in the old ways

Seabra and his colleagues decided they wanted to have impact on a larger scale than simply the bank accounts of their share owners. The company has implemented a broad set of metrics to track its social and environmental performance as objectively as its financial results. It sets goals in all three areas, and ties its managers' compensation to their attainment. No one would call Luiz Seabra anything but a capitalist, but he seems to be following a new rule: Own your impact, positive and negative.

Natura is not the only company engaging in triple bottom line accounting and reporting on nonfinancial performance. Unilever, for example, is thinking just as broadly. But Natura is also significant for being situated in an emerging economy. If capitalism's evolution is being held up by entrenched attitudes and feedback loops, it makes sense to look for change in the parts of the world least invested in the old ways. It will be the fast growth of economies like Brazil, China, and India that will spring capitalism from its well worn grooves.

This is the biggest opportunity for the accounting profession since the double entry. Already we see the global auditing firms establishing vibrant new practice areas. When PwC helped Puma issue its environmental profit and loss statement, its explicit goal was to create an approach that could be adopted by other firms.

"This is nothing to do with corporate social responsibility and the green agenda," Chris Knight, of PwC's sustainability practice, told the *Financial Times*. "It is hard-nosed economics."

Luiz Seabra once told us about a meeting convened to rewrite Natura's mission statement. The wording had the company aspiring to grow its customer base while maintaining its commitment to sustainability. The CFO, however, objected. "Not while maintaining," he corrected. "It should be through maintaining."

Think about it: a CFO chimed in with that comment? Apparently, capitalism evolves.

Christopher Meyer is the author, with Julie Kirby, of *Standing on the Sun: How the Explosion of Capitalism Abroad Will Change Business Everywhere* (Harvard Business Review Press, 2012)

Letter from America

Uncle Sam misses the target on tax

The latest news from Christopher Alkan, our insider in Washington

Tax cheats cost the US government up to $500bn a year. Tracking down tax dodgers makes more sense than ever – offering a way of shrinking America's eye-popping budget deficit without unpopular tax increases.

But Uncle Sam's recent effort to clamp down on tax evasion is affecting more than just Americans. The Foreign Account Tax Compliance Act will force banks round the world to report details of any account held by Americans that contains more than $50,000. Those that fail to comply will be slapped with a 30% tax on any funds they receive from the US – a punitive charge that would effectively bar them from financial dealings with the world's largest economy.

The cost of obeying this US dictate will be imposing. KPMG believes the bill could run to $30bn for financial firms worldwide over the coming five years. To add insult to injury, the US Congress only expects to raise about $800m a year in extra revenues from the measure – hardly a windfall for America's IRS, which collected $1.9bn in 2010.

There are several reasons why the cost-benefit analysis of the act is so adverse. On the surface, it may seem a relatively simple task for banks to identify US account holders. In reality it is a monumental undertaking. In Japan alone about 800m accounts will have to be probed, according to the Japanese Bankers Association.

In some cases, banks will be able to conduct such searches electronically – checking for obvious clues to citizenship such as address, power of attorney, linked bank accounts and telephone prefixes. But in other cases the verification will have to be done the old-fashioned way – reviewing the paperwork by hand. Getting in touch with suspected Americans and possibly withholding taxes from their accounts will be another bureaucratic headache.

Red tape is not the only worry. In many cases, nations have laws against handing over such sensitive information to foreign governments.

Some nations have sought to circumvent this problem. As part of a deal struck in February, five nations – Britain, France, Germany, Italy and Spain – will collect the data on suspected American tax cheats themselves and hand over the information to the IRS. But even this requires nations to bend over backwards to satisfy the US. Other countries will have to modify laws on privacy or adopt their own versions of FATCA in order to prevent their financial firms being shut out of America.

Small wonder FATCA is so widely resented across the globe. It is highly doubtful the trickle of extra tax revenue will justify alienating so many nations. In addition, the US is neglecting far more effective means of clamping down on tax evasion. Beefing up the IRS is the most obvious, yet Congress has been skimping on this agency. The IRS budget was trimmed by 2.5% for 2012, obliging the service to eliminate 5,400 jobs. This move seems particularly ill timed. Every dollar spent on the IRS yields about $3 in extra revenue, according to government estimates.

Before America tries to enlist the world's banks as unpaid tax collectors, it should consider funding its own revenue service properly.

RUSSIAN STEPS

The largest country on earth has long trodden its own, often corrupt, path. But there are signs that Russia is starting to fall in behind Western business ethics in espousing good governance and sidelining bribes. **Adrian Holliday** reports

Above: guards at Lenin's mausoleum. Right (clockwise, from top left): shoppers ascend the lifts at Moscow's giant Evropeisky mall; giant nesting dolls adorn Moscow's Adofimall shopping centre; outside the Ministry of Foreign Affairs; Moscow's GUM department store: and jet-skiers on St Petersburg's Griboyedov canal

The days of the Russian Wild East are finished. Russians have adopted Western governance standards and bribes, bungs and brown paper envelopes are things of the past.

That, at any rate, is how the Russian business propaganda machine is positioning itself. But the outcome and reaction to presidential elections suggests the bright future hasn't dawned yet. And the World Bank is also not sure. Russia's place on the ease-of-doing-business scale stood at 120 out of 183 countries measured in 2011; its rule-of-law rating in 2009 was worse – 189 out of 213 states. So how easy is it to do business in Russia without losing your integrity?

SCARS ON THE BACK

Accountant Tim Kerr is finance transformation practice leader at Novo Altum, a CFO advisory firm that has worked extensively in Russia. For much of the past 12 months Kerr has been working for a major Russian investment bank, providing advice on its finance transformation programme.

"They recruit a lot of ex-pats, such as senior finance professionals, accountants and banking specialists," he says, "and they use advisory support to provide experience – the scars on the back – that doesn't necessarily exist in Russia."

Kerr has not come under pressure to do anything untoward and his client is applying International Finance Reporting Standards. But if you were to come under pressure, he says, "You need to be guided by your own personal and, most importantly, professional standards and ethics. They are your guiding principles. No one wants a blot on their CV."

The chief executive of a London-based wealth management company, who prefers not to be named, has a different take. Though not an accountant, he has racked exposure to Western corporates doing business in Russia and has extensive private wealth management experience in Moscow.

"You must bribe the right people," he says. "There are several ways to do it and it's often done quite smartly. You use a consulting firm to channel the money in and out. It's how business life functions."

Such pressure may be more evident in certain sectors. "The question," adds the CEO, "is how close your work is to the empire of natural resources. They're completely in the hands of a few oligarchs giving the Russian government huge backhanders."

LOCAL KNOWLEDGE

John Burbidge-King, CEO of risk consultancy Interchange Solutions and a specialist in business reputation has worked in and around Russia for years. He sheds further light: "Let's take an expat accountant working for a foreign company in Russia," he says. "The chances are they will follow the same in-house processes. The problem is when they are asked to be flexible in applying those processes."

A British accountant working for a Russian company is, says Burbidge-King, more likely to face a different set of accounting rules and be more exposed to the will of their employer. "This requires a much more absolute local knowledge and an integrity mind-set to meet those circumstances," he says. "And there's the possibility that this person may have to go with the flow or pack their bags and leave."

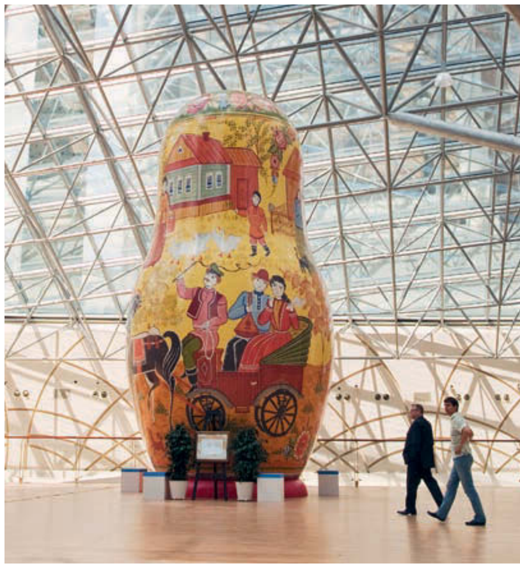
Local knowledge includes understanding the culture of gift-giving. Russia remains a country where what the West might describe as a bribe – *vzyat* – would be seen by some Russians simply as a facilitation payment.

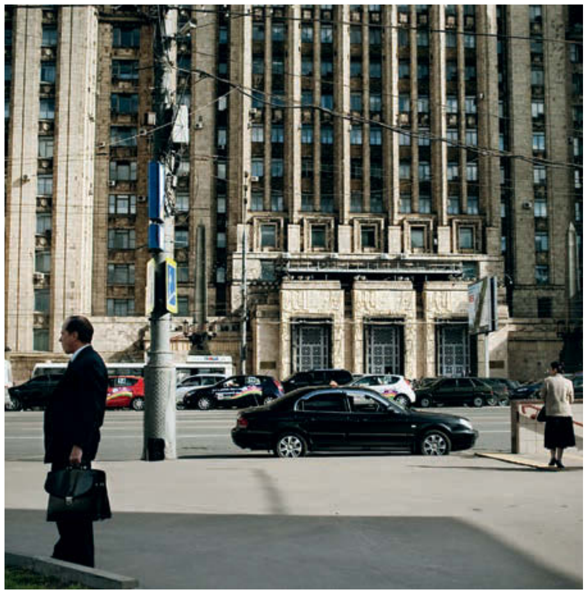
Beyond this, any accountant needs to build strong levels of trust. Interpersonal relations, says Burbidge-King, are highly important for Russians.

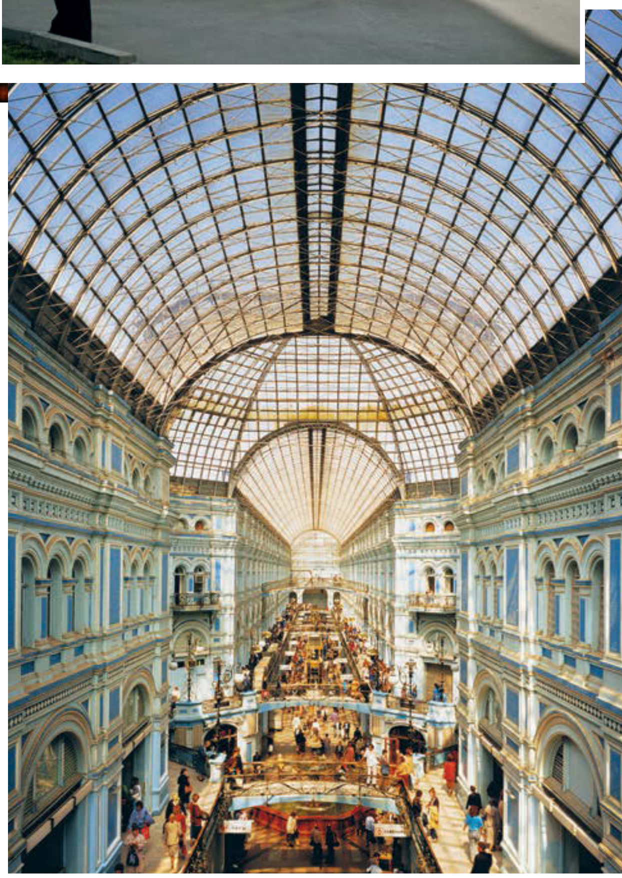
"In Britain we don't worry about having to build such highly dependent relationships. It's taken for granted," he says. "Not so in the Russian context. There are real cases where the accountants in firms are examined by the tax police, which is a completely different type of investigation to the UK. They haven't necessarily done anything wrong or abrogated a minor rule, but for unpredictable reasons they may want to shut a company down – and they will act pretty strongly. So there is a need to plan for such raids and how tax affairs are handled."

BRIBERY PROTECTION

What, then, of the new UK Bribery Act? Baker & McKenzie solicitor Paul Melling has witnessed Russia's economic revolution first hand since 1989.







GUILLAUME HERBAUT/INSTITUTE, JEREMY NICHOLL, GETTY, PANOS

Wealthy Russians visit Moscow's annual Millionaire Fair, where everything from private jets to diamonds can be purchased

Much of the UK Bribery Act is well known, he says, and to some degree its ramifications are academic – many of the risks are covered by existing accountancy professional ethics.

He has little time for British businesses who avoid Russia and other higher risk markets until conditions improve. "That's very unfair on Russia," says Melling. "In fact, the Russians are doing an awful lot – they realise they have a huge problem.

"If you took a snapshot of the average Russian company in 1996, 85% of it was black economy with just 15% above the table. You didn't need laws, regulations or ethics. That has changed. Russia has its own bribery laws, which don't differ much from the UK Bribery Act, and the penalties are stiff. There's increased co-operation between US and UK authorities to fight it too."

FACILITATION

Meanwhile, Russian companies are rubbing up against international business all the time. About a quarter of foreign IPOs on the LSE are Russian (light-touch regulation doing its job). Russia joined the World Trade Organization last year, after nearly two decades of negotiation. And Anglo-Russian relations appear at least superficially to be warm.

Russia and the UK have complementary economies: Russia is rich in raw materials but poor in services and the UK is the opposite. Prime minister David Cameron has acknowledged this in UK-Russian trade missions – British goods and services remain highly regarded by Russians.

Move away from the politically-loaded area of natural resources to home goods, DIY equipment and personal care and things are straightforward (well, up to a point – see box, below). The sheer amount of foreign direct investment (FDI) going into Russia is prodigious, despite regular political ills. On the face of it, the UK is a big investor. Yet strip out oil and gas and you'll find UK investment in Russia is surprisingly slender – a great deal slimmer than that of German or Italian FDI in fact.

Stephen Dalziel, a former BBC correspondent, is executive director of the Russo-British Chamber of Commerce. He's adamant Russia has changed for good. Yes, you may encounter potentially difficult situations every so often, but if you are in it for the long term, hold your ground, he urges.

The bad news is that for Western business it is more difficult to find a niche. "The regions are looking more attractive, but that's also where inferior governance is more predictable," he says.

A good example is the city of Nizhny Novgorod, 260 miles east of Moscow, where the Volga and Oka rivers merge. "One of the reasons Nizhny Novgorod was successful is that it had a very forward-thinking mayor in Boris Nemtsov," says Dalziel. "Although he wasn't a great force in politics, he promoted good governance." This had a demonstrable trickle-down effect across the region, bringing Nemtsov to Boris Yeltsin's attention. Indeed, Nizhny Novgorod was even called Russia's "laboratory of reform", winning praise from Margaret Thatcher in the 1990s.

"Russian companies have figured out that compliance is good for business," agrees Baker & McKenzie's Melling. "Let's say a multinational tobacco company, even five years ago, were to go to its Russian distributor and say, 'We want you to put compliance training in our contract and run regular compliance audits', they would likely have said, 'Get lost'. Not now. In a strange way, the Bribery Act is having a clever, ethical effect."

COURT IN CONTROVERSY

The most successful judicial reformer is Anton Ivanov from St Petersburg State University. Ivanov has been instrumental in building up Russia's commercial – or *arbitrazh* – courts. Domestic and overseas businesses have come to regard these courts as providers of muscular support against Russian tax authorities. According to statistics collected by the Supreme Arbitration Court, in 2008 around 80% of large tax disputes were resolved in favour of corporate taxpayers

DAMAGED GOODS

Ikea, despite the promise of many jobs and local investment for ordinary Russians, has been badly bruised by its Russian experience.

Widespread corruption hobbled the company's £2.5bn investment in the country and considerably slowed the opening of stores.

Ikea went to Russia with a zero-tolerance policy on corruption. Last year the Swedish company said it would not be building any more outlets beyond Moscow following the refusal of building permission in the central Russian cities of Samara and Ufa.

Major unpredictability, unreasonable demands (including requirements that buildings should meet close-to-hurricane wind standards despite little history of such storms in the region), worry over basic electricity supply... Even if you're a big investor promising jobs and investment, the Russian bear can still give you a good mauling.

DONALD WEBER/VII

Bangladesh

AT A GLANCE

A thriving service sector is contributing to rapid growth in an economy still largely based on agriculture. And this, says **Penelope Rance**, is in spite of some complex challenges

VITAL STATISTICS

POPULATION: 158,570,535 (July 2011 est.)
CAPITAL: Dhaka
FULL NAME: People's Republic of Bangladesh
LANGUAGES: Bangla (also known as Bengali), English

ECONOMIC STRENGTH

GDP PER CAPITA: $1,700 (2010 est.)
EXPORTS: $19.24bn (2010 est.)
IMPORTS: $24.72bn (2010 est.)
EXCHANGE RATE: £1=132.53 BDT (taka) [Jan 26]
Annual economic growth has run at 5.6% since 1996. More than half of GDP is from the service industry, most of the rest is down to agriculture. Natural resources include coal, natural gas and arable land, which produces rice, jute, wheat, sugarcane, tea, tobacco and spices. Industrial products are textiles, newsprint, fertiliser and cement.

PROFILE

Set on the Bay of Bengal between India and Burma, Bangladesh – formerly East Pakistan, and before that the East Bengal province of British India – won independence in 1971. Political instability followed, including military coups and amendments to the constitution, but peaceful elections in 2008 made Sheikh Hasina Wajed prime minister. The legal system is based on English common law and Islamic law. Despite poverty and lack of development, the country has proved resilient during the economic downturn.

SCIENCE PHOTO LIBRARY

WATERWORLD

Much of the country is set along the river deltas of the Ganges, Jamuna and Meghna. Flooding during the annual monsoons can cover one-third of the country, which is largely alluvial plain. Combined with regular droughts and cyclones, this hinders development and leaves many people landless, or forced to risk farming in flood-prone areas. Flooding leads to waterborne diseases, while groundwater is contaminated with natural arsenic. Drought has contributed to soil erosion and deforestation.

PEOPLE PROBLEM

Overpopulation is a major issue. With a birth rate of 22.98/1000 versus a death rate of 5.75/1000, this will continue. Only 28% of the population live in cities, with 45% working in agriculture. Literacy stands at 47.9%. Poverty is widespread and people trafficking is thriving both within Bangladesh and into India and Pakistan. Trafficked men are often tricked into forced labour with offers of work. The government is making some progress in the fight against slavery, particularly sexual exploitation.

PIRATES AHOY

Reports from the International Maritime Bureau warn of the high risk of piracy in Bangladesh's territorial waters, with the number of vessels attacked increasing year on year. In 2010, 23 commercial vessels were boarded, their crews robbed and their stores and cargoes stolen. Bangladesh still disputes the borders of its maritime boundaries with India and Burma, although it has referred the matter to the International Tribunal on the Law of the Sea. A settlement looks likely.

BUSINESS OPPORTUNITIES

The lack of effective exploitation of the country's agriculture and raw materials – especially energy sources, and in particular natural gas – makes it appealing to foreign investors. The rise of the middle class has driven consumer demand. The government wants to improve infrastructure by building a $7.5bn airport and south Asia's largest deep-sea port on Sonadia Island. Work on Dhaka's road network and new high speed trains are also intended to reduce the city's chronic congestion.

ACCOUNTANCY

In 2007, ICAEW began a World Bank-sponsored project to strengthen the accountancy profession in the country through a twinning agreement with the Institute of Chartered Accountants in Bangladesh (ICAB). This focused on strengthening ICAB's own qualification and profile, as well as other initiatives. In 2009, ICAEW and ICAB signed a Memorandum of Understanding to further strengthen ties between the two bodies and build on the outcomes and achievements of the twinning project.

An independent woman

Effective regulation is about winning minds, not wielding a big stick. That's the view of FRC chairman Baroness Hogg, who took time to explain her approach and the rewards it is reaping at a time of unprecedented change

Baroness Hogg, chairman of the Financial Reporting Council (FRC), is a woman with a formidable reputation. She has a long list of achievements, including launching the business pages of *The Independent*, presenting *Channel 4 News* and being the first female FTSE 100 chairman (at private equity group 3i). Thanks to a long involvement with the FRC, she has also become something of a doyenne of corporate governance. So as she strolls into the reception at the FRC to greet me, it's a surprise to find she doesn't live up to that reputation. With the air of a kindly shopkeeper, she apologises for keeping me waiting, offers me a drink and steers me off to a meeting room. In the course of an hour-long, extensive discussion, though, it becomes clear that for all her affable exterior, she deserves her renown as an efficient and effective regulator.

While her time at the helm of the FRC has been dominated by the reaction to the financial crash, she rejects the idea that capitalism is in crisis. Events in 2008 highlighted weaknesses in the financial system, but she is confident they can be – and to some extent have already been – remedied with minor shifts in audit and corporate governance.

She has been impressed with the way the finance and accountancy profession has reacted to events. "Finance didn't have to look at itself any more than anyone else," she says. "Governments, regulators and boards have all faced challenges. And while there is a lot of focus on corporate governance and the role of audit, I think the profession at the most senior levels is going about this process in a thoughtful way. This period of reflection is important if we are to maintain the chain of trust from investors to companies. Investors rely on the boards and auditors of companies. If they can't, there is a real problem."

While other observers question the very model of western capitalism, Hogg is clear where the FRC's focus should be. She avoids fancy talk of systemic challenge and focuses the conversation on efficient and effective functioning of capital markets. The value of those markets is something she feels is often neglected.

"Equity markets have always been important to the British economy, more so than for other European countries. And they proved to be important during the crisis. When debt markets dried up and governments ran out of money, equity markets stepped up with rights issues and raised £50bn in an 18-month period," she says.

The importance of these markets as drivers of economic growth is why the FRC's mission statement is to promote high quality reporting and governance in order to foster investment. "That end piece reminds everyone of the ultimate purpose of what we do. If investors have confidence in capital markets and confidence in how accounts are written, confidence in how those accounts are audited and in how companies are governed, they will put their money at risk, assuming they are also confident in how the regulator sets the framework. All the pieces have to be working well for people to put their capital

Words: Richard Cree Pictures: Charlie Best

at risk in driving the growth of our economy." Clearly that fell apart in 2008. So who was to blame?

"We all face the challenge of asking ourselves how well we played our part during the crisis," she responds, diplomatically. "The challenge to boards is did they govern their companies effectively? The question to regulators is did we set the right framework, and the challenge to investors is did they behave like responsible owners?"

This question of responsible investment is at the heart of the debate about the economic model and the FRC's mission to build market confidence. Hogg is clear that while the *Code of Stewardship*, published by the FRC in 2010, has helped, there are challenges ahead. "Stewardship is difficult because a lot of share buying and selling is not about ownership at all, but trading," she says. "Traders hold shares for a nanosecond. Nonetheless, long-term, institutional investors had the courage to get together and develop a stewardship code that enables responsible owners to sign up to ways of behaving that prove their intent to honour their responsibilities. That means thinking about the long-term viability and sustainability of the company and engaging on issues that impact for longer than the next nanosecond."

If the financial crash has dominated Hogg's tenure at the FRC, a major restructuring of the organisation has been equally significant. To some extent it has been part of the FRC's own response to the crash, but Hogg stresses it is also the conclusion of a process started by her predecessor. "It's healthy for all of us to

look at the crash and not point fingers but ask what we could do better. At the FRC that led us to think how we could rearrange ourselves more effectively. We are very complicated, with seven operating bodies delivering one ultimate objective. That leads to thinking in silos, which is not something we can afford. We have people here within the Financial Reporting Review Panel looking at accounts and people on the Professional Oversight Board and the Audit Inspection Unit looking at how those accounts are audited. Ultimately, we want the accounts and the auditing of those accounts to be the responsibility of the chairman of the audit committee of the company and for them to be an effective steward on behalf of investors. The more we can join up thinking and learn across the organisation, the more effective we will be."

This ability to influence the profession is especially important internationally. "The more divided we are, the less effective we prove in our international engagement," says Hogg. "We have to be engaged at the highest level across the piece. If you look at the EU, the reviews of both corporate governance and the audit market are hugely important. We have to be able to engage across and within the EU and build alliances for what we think are good changes and push back ones we don't agree with."

Hogg cites the recent proposals on audit reform as an example of this need to resist some EU initiatives. "We don't think a number of the audit proposals will lead to better or more cost-effective audit. We need to say that clearly at the highest level and bring together our abilities to make that case."

Critics of the re-organisation suggest that the loss of the Accounting Standards Board might rather weaken the UK's position as a leader in global standard setting. "The ASB is a well-respected body internationally and is seen by many as something of a great British brand," says Andrew Gambier, manager, technical strategy at ICAEW. Needless to say, Hogg disagrees. "I think that's mistaken. We want to pack a punch at all levels. Instead of the ASB we will have an Accounting Council, which will bring the expertise at the technical level to drill through accounting standards proposals and give us expertise to pack that punch. We will then be able, at the codes and standards level, to make the same points at the higher level and at a higher order of debate, and the same at the FRC board level."

When asked about the FRC's relationship with the profession, Hogg says she wants to be a regulator that is "close to market, but independent". That independence, she says, is vital.

"We have a good relationship with the profession, but it should never be too good. We have to maintain our independence. But it is a complex relationship. We are regulating and co-operating. We have listened a lot in the consultation [on the restructuring] to the Institutes, which all had slightly different approaches. But if we don't think something is right we go our independent route. We are very grateful for the engagement in the consultation, because it made it useful. We have taken on board feedback, but not where we think it would imperil our independence. Our ultimate accountability is to the Secretary of State for Business Innovation and Skills."

She says she is confident that the new-look FRC will be well positioned to face the challenges of a tricky economic period. "We have great expertise not just in the ASB but in the Audit Practices Board, the Financial Reporting Review Panel and the Professional Oversight Board. There is huge expertise and we want to be able to mobilise that technical capability to address issues as they come along most effectively."

> "If auditors were the dogs that didn't bark in 2008, they weren't alone. There were lots of them all sitting quietly in their kennels. The expectation of what auditors do isn't what they actually do"

But Hogg is keen the organisation doesn't become too large or unwieldy. At the moment it employs about 100 staff. "Compare that to the thousands at the FSA," she says. "It's clear we are a small organisation. But we don't want to become a large one. We want to be small and effective. Going through this transition we set the objective of keeping costs down, but there are other areas where the government is pressing us to take on responsibilities, especially in the light of events at the Audit Commission."

Wherever possible Hogg is keen not to regulate. "I always think regulators should ask themselves where they might be doing too much. It was in our consultation and if others asked us to carry on doing something, we would listen. But all regulators have a tendency to grow like topsy if you don't ask the question.

"There are areas where there has to be a dialogue with the professions as to where that cut is. It would be good if we can make the boundaries a little more coherent in places, some of them are blurred at the moment and need to be tidied up."

One of the most volatile areas of the profession currently, and one identified at least in part as being responsible for the financial crash, is audit. Hogg doesn't agree with the view of EU commissioner Michel Barnier that auditors were "the dogs that didn't bark" in 2008. Hogg says, "If auditors were dogs that didn't bark, they weren't alone. There were lots of other dogs elsewhere all sitting quietly in their kennels. As one senior auditor said to me, the expectation of what auditors do isn't aligned with what they do. We have to think about that. Are we doing what the public thinks we should do and can we enhance it?"

If the well-defined process of audit hasn't changed, Hogg says attitudes and approaches to the profession are changing, and that she has seen increased engagement between auditors and audit committees on the various boards she sits on. "All parties involved in audit are thinking about how they can get more value out of it. That's great news. The more it can be seen by the audit committee and auditors as a valuable process rather than something to be done to get accounts out, the more value it will give and the more interesting it will be for everyone."

Talk of her other board positions brings us to John Lewis Partnership, where she is a non-executive director. Does she agree with Deputy Prime Minister Nick Clegg's assertion that if companies adopted the John Lewis approach it would be good for the country and the economy?

"John Lewis is different in terms of its accountability, because it is accountable to its employees," she says. "But they aren't the owners in that they don't have shares they can take away with them, because the business is owned by a trust. But it is different to a structure where accountability is to external shareholders. Although in some ways it is still accountable to capital markets, because it has bondholders and therefore public reporting issues have to be taken seriously."

But Hogg is wary of singling out one model as the way ahead. "There isn't one model that fits all. The differences between the models are not as important as the culture of organisations, and cultures are not something you can change overnight by changing the ownership model. The John Lewis culture has built up over a very long period, so everyone there knows the way we do things. In small businesses that can be very powerful, too. The way a business grows in its first five or 10 years has a lot to do with how it develops culturally over time."

Another area under scrutiny at the moment is the involvement of staff in the setting of executive pay. Asked whether executive pay generally is too high, Hogg pulls another neat diplomatic swerve. "I don't think there is a single answer to that," she says.

She admits that many investors have struggled to engage with the issue effectively but says more are beginning to get to grips with it now. "There is a process of consultation between companies and investors about remuneration, but both sides are aware that they could raise their game," she says. "It is a challenge for investors to find a good position on this. They are the owners after all and should have a say on how much of the economic rent is going to the people who manage the business.

"But on the other hand they don't want to step in too far and effectively start behaving as if they were the board of the company. Getting the right level of engagement in the philosophy of pay, rather then the details of year-on-year reward, is challenging. But I think we'll see a high level of engagement this year and it will be interesting to see how the introduction of annual elections for directors interacts with that. Investors have previously complained that if the chairman of the remuneration committee didn't want to engage with them it was difficult. Now investors can engage if they want to, because they have the sanction of removing X, Y or Z from the board."

This requirement for annual election was an amendment to the corporate governance code initially opposed by most business groups. Yet within 12 months of its introduction Hogg claims that 83% of the FTSE 350 have adopted it.

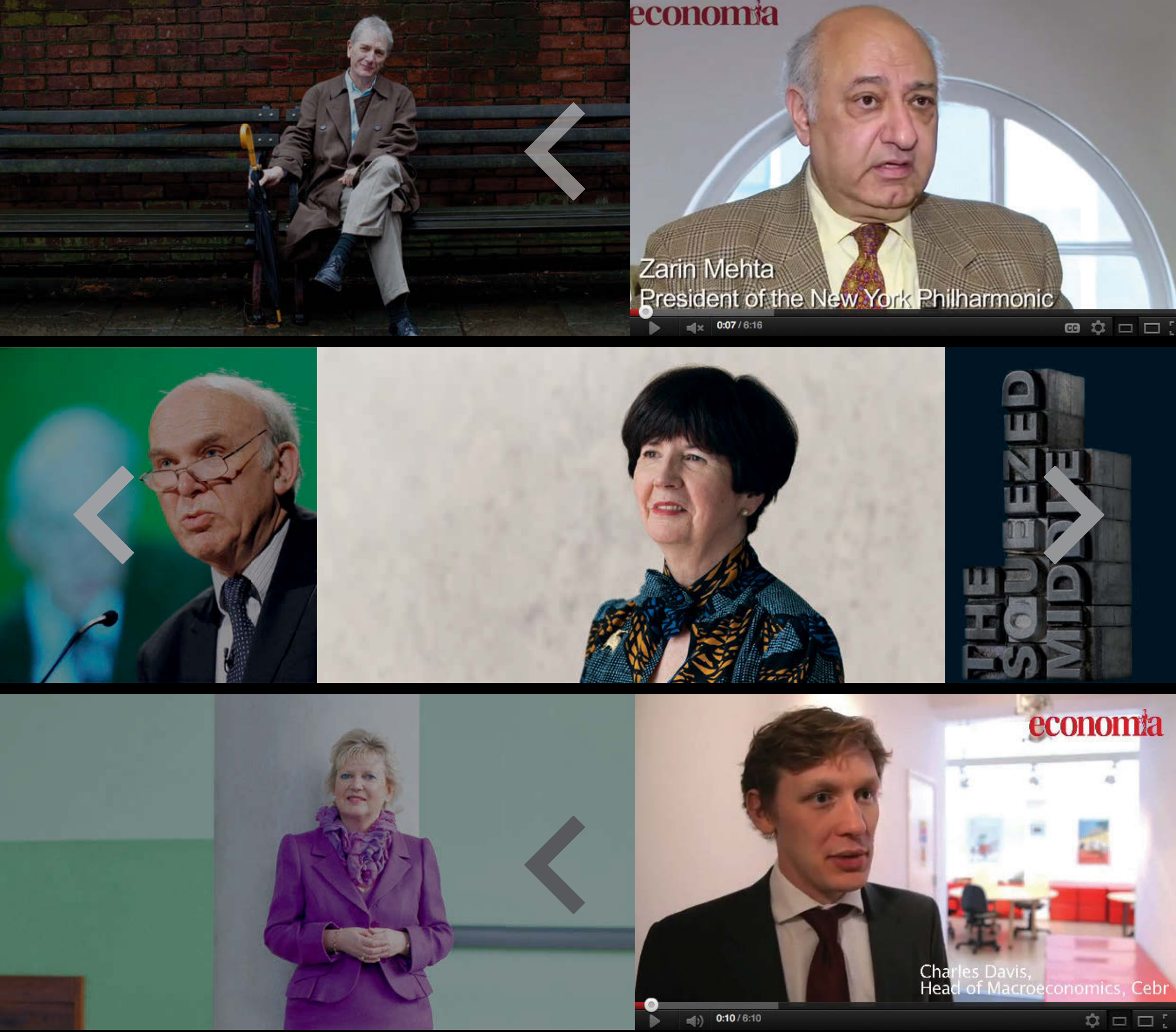
Hogg points out that this combined with plans to regulate executive pay points to an example of how the voluntary code of corporate governance interacts with legislation. She has long been a champion of the voluntary "comply or explain" principle rather than forcing directors' hands through legislation. But there is a limit to what the code can do. "Once you've got a code there are always 24 different things people try to hang off it," she says. "It's like those lifestyle coaches who tell you exercise only takes 10 minutes a day. The day doesn't hold enough 10 minutes."

Hogg asserts that the balance in the UK between legislation and a voluntary code is about right. "It would be a mistake to think we only have the corporate governance code. We have a lot of legislation underpinning it all. We have the Companies Act, where directors' responsibilities are defined and we have legal reporting requirements underpinning that as well. Legislation is the product of a politically accountable system decided by people who are democratically elected. They set the legislative framework and we have to operate within that."

The FRC has no plans for any great land grab in this area. "We are not trying to take over the world and say we don't need legislation at all," says Hogg. "Some European proposals go too far in terms of grabbing from the code and putting it in legislation. The critical question is what's working and what's not. It's like the FRC's own reform agenda. We needed to identify what is done well by the profession and the Institutes, and what could be more independent. It's a mistake to think either approach to corporate governance works on its own. You can't do it all in legislation, as it reduces flexibility and creates an overload of law. On the other hand you need the legal underpinning to make the code work. We don't exist in a vacuum and having the two working together gives the best of both worlds."

Hogg seems pleased there was no post-2008 charge to shake things up for the sake of it. "The country as a whole has resisted the temptation to rush into legislation. As sure as God made little apples you will end up having to revise legislation later. The existence of a code helps you stop having to do that. We have revised the code (since 2008). We didn't revise much, but we felt the pieces on risk were important and hadn't received enough emphasis. There is also more emphasis on behaviour in this version, there is more emphasis on the role of the chairman and there is annual election and an emphasis on upping your game on board effectiveness."

Accountability is key to all the FRC does. "In the post-2008 world there are challenging questions about the model of capitalism and the idea of responsible capitalism," she says. "Those questions are coming from Europe about the regulatory response, accounting and reporting standard and disciplinary procedures. Within that challenging environment we had to make sure we were fit for purpose and clear in what we are trying to do."


economia
Zarin Mehta
President of the New York Philharmonic
0:07 / 6:16
THE SQUEEZED MIDDLE
economia
Charles Davis,
Head of Macroeconomics, Cebr
0:10 / 6:10

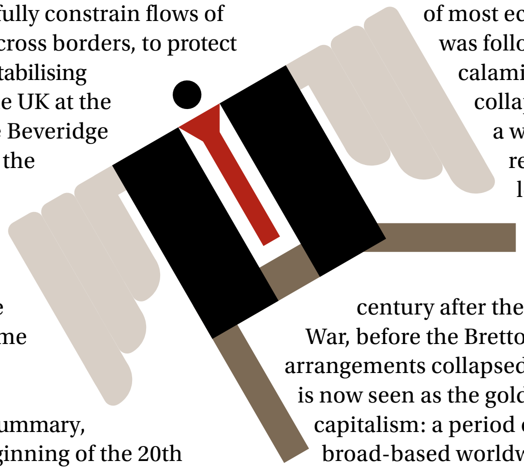
Surprise. One of the biggest booms in history has been followed by an almighty slump. Amid the blame and recriminations the capitalist model itself has come **under attack**. So, is it broken or does it just need tweaking? Responsible capitalism comes down to a few simple ideas. Do no harm. **Do good**. Create wealth responsibly, share it out evenly and **focus on fairness.** In this issue, we look at the future of capitalism and the organisations trying to make **money** without harming everyone else along the way.

IN STEP WITH SOCIETY

All for one and none for anyone else is a model that can no longer work in today's society. **Nicholas Shaxson** argues that it's time to create wealth for society, not shareholders

The Great Depression of the 1930s, which had followed a period of major financial liberalisation, transformed the political landscape around the world. In the US, Franklin Roosevelt brought in the New Deal, a series of economic programmes between 1933 and 1936 involving much greater Federal regulation of the economy, a massive expansion in social programmes and more power for labour unions. John Maynard Keynes's General Theory in 1936 revolutionised the way people thought about how governments could and should intervene to produce full employment.

After the Second World War, governments around the world agreed, under Keynes's strong influence at the Bretton Woods Conference, to set up a co-operative international system that would (among other things) carefully constrain flows of financial capital across borders, to protect countries from destabilising capital flows. In the UK at the end of the war, the Beveridge Report ushered in the National Health Service and the Welfare State. For 15 years after the war ended, the top marginal income tax rate in the US was above 89%.

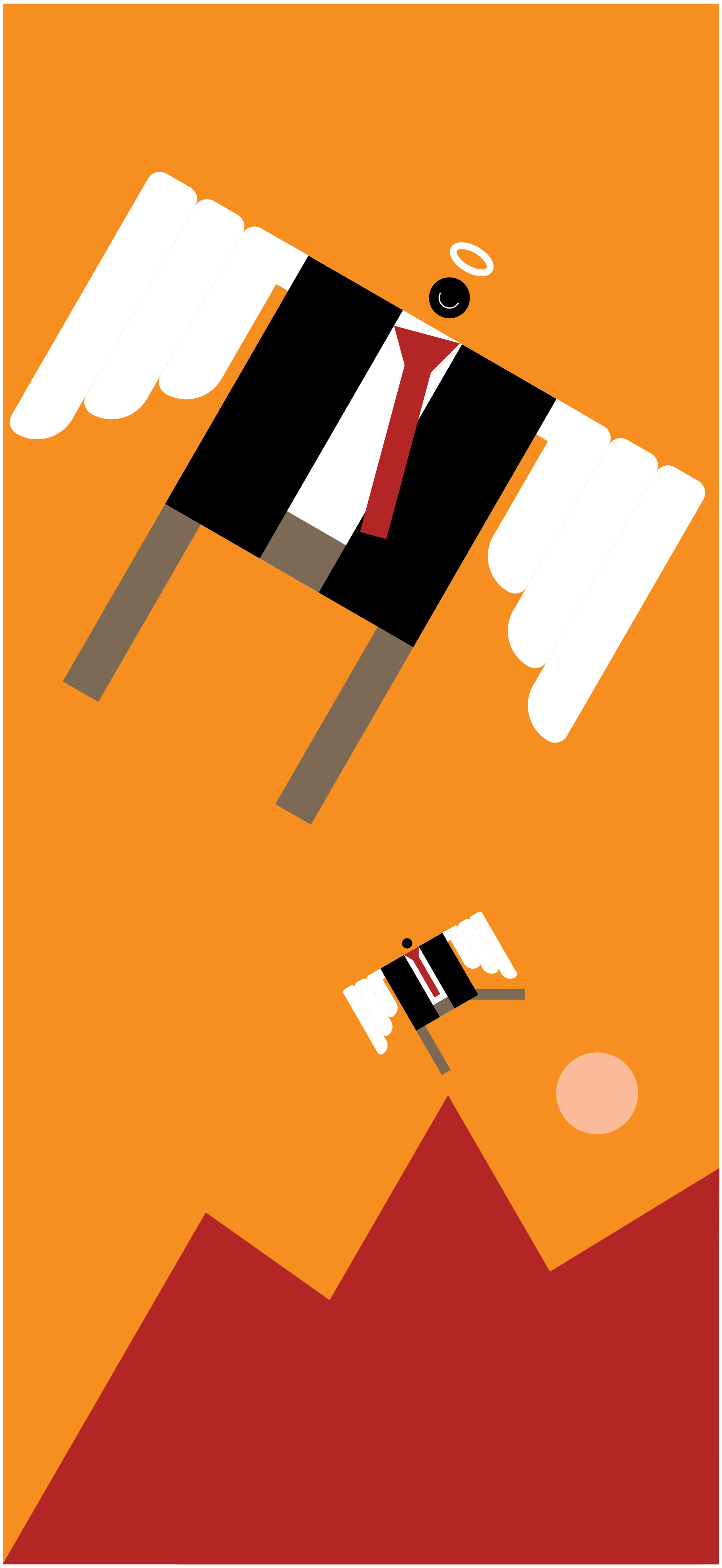


In a very crude summary, a period at the beginning of the 20th century in which the markets had been judged to be the best arbiter of most economic affairs was followed by a calamitous financial collapse, which led to a wholesale political realignment and a lengthy period of intense state intervention.

The quarter century after the Second World War, before the Bretton Woods arrangements collapsed in the 1970s, is now seen as the golden age of capitalism: a period of high, broad-based worldwide economic

ILLUSTRATIONS: PETER GRUNDY

We are now in the throes of what could be the next Great Depression… the City, at the epicentre of the calamity, has been subdued, but much of the old business model remains intact



growth, economic stability and falling inequality. The period of financial liberalisation and tax-cutting that followed from the 1970s onwards saw falling growth rates, repeated financial crises and soaring inequality.

The point here is not to offer old history as a guide to modern policymaking. After all, correlation is not causation, and the ebbs and flows of growth each had many causes. The point is that economic collapse produced deep political realignments, allowing old orthodoxies to be dethroned.

We are now in the throes of what could be the next Great Depression – but this time around the old orthodoxies are alive and well. The City of London, at the epicentre of the calamity, has been subdued, somewhat, but much of the old business model remains intact, and some politicians are already telling us to stop "banker bashing" while subtley ushering us slowly back towards business as usual. The decisive, root-and-branch political revolution has not happened.

TALK IS CHEAP

Of course, every politician these days wants to talk about "responsible capitalism". But talk is cheap. If we want to have any hope of achieving the

JOHN MAYNARD KEYNES ON CAPITALISM AND THE COMMON GOOD

"The divorce between ownership and the real responsibility of management is serious within a country when, as a result of joint stock enterprise, ownership is broken up among innumerable individuals who buy their interest today and sell it tomorrow and lack altogether both knowledge and responsibility towards what they momentarily own.

"But when the same principle is applied internationally, it is, in times of stress, intolerable – I am irresponsible towards what I own and those who operate what I own are irresponsible towards me. There may be some financial calculation which shows it to be advantageous that my savings should be invested in whatever quarter of the habitable globe shows the greatest marginal efficiency of capital or the highest rate of interest. But experience is accumulating that remoteness between ownership and operation is an evil in the relations among men, likely or certain in the long run to set up strains and enmities which will bring to nought the financial calculation."

From the article National self-sufficiency *in* The Yale Review, *June 1933*

necessary revolution, we must first understand what this revolution needs to be. A timeless quote from a piece Keynes wrote for *The Yale Review* in 1933 is a fine place to start.

"Experience is accumulating," he said, "that remoteness between ownership and operation is an evil in the relations among men, likely or certain in the long run to set up strains and enmities which will bring to nought the financial calculation."

One of his messages is that if we want truly responsible capitalism, then "efficiency" is the wrong target.

Since the 1970s, economists and accountants have fallen in love with a particular notion of efficiency, meaning a lack of friction in economic transactions. Get government, red tape and taxes out of the way, the thinking goes, and Adam Smith's invisible hand will work its magic. This concept has brought us wonders such as New Labour's "light touch" financial regulation, an approach it boasted would "move us a million miles away from the old assumption that business, unregulated, will invariably act irresponsibly".

Well, business did behave irresponsibly, revealing this kind of efficiency to be a false god. Taxes and regulations may create frictions – but for all their many warts and imperfections, they are put there for the good of society.

Think about efficiency like this. To get around a particular petty regulation; or to get your container through that port quickly; or to get that permit expedited, or to skirt that tax – there is an approach that can be highly effective in many countries. That approach is called bribery.

Bribery can certainly seem efficient for an individual or corporation. But a society plagued by bribery is a very different matter.

A responsible capitalism, then, has to cast aside orthodox notions of efficiency and must move its frame of reference from the individual up to that of society as a whole. Corporations cannot achieve responsible capitalism unaided: so corporate responsibility can never be enough. Inevitably, the state will have to play a much greater role in markets.

It also means we must – just as Keynes said – aim to end the widespread fetishism of shareholder value, where those who run corporations feel they are only responsible to shareholders, excluding other stakeholders and society at large. The concept of stakeholder capitalism has been around for many years, but has been comprehensively co-opted and diluted by politicians, most notably in recent months. In light of all that has happened since 2007, we need to reclaim the term.

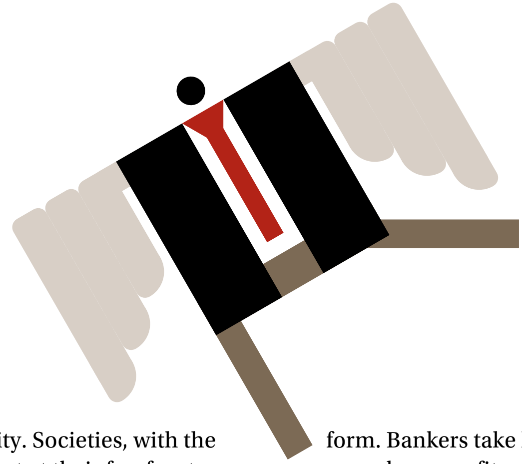
THE ACID TEST

To achieve real clarity on this point – the acid test – it is essential to first view these questions through the prism of tax. If we want responsible capitalism, then tax must come to the very centre of the debates on corporate responsibility and stakeholder capitalism.

Consider what happens when a big multinational sets up subsidiaries in the Netherlands, Luxembourg, Ireland and Bermuda, to cut its tax bill. "Our duties are towards our shareholders, and that means minimising our tax by all legal means available," its bosses may say. Let us explore what this means.

First, these tax gymnastics make no contribution to genuine economic productivity. Tax avoidance does not create wealth: it transfers it from taxpayers to shareholders. But that is not all. In economic terms, tax avoidance is

Responsible capitalism eschews tax havens. What they offer, ultimately, is escape from the responsibilities of society… whether by illegal means or not



profoundly inefficient. It means many of the best educated and best paid members of society – accountants, lawyers and others – waste a lot of time and treasure cooking up economically unproductive tax strategies.

More importantly, these tax games distort the economic playing field, effectively providing subsidies to large multinationals (which can use the offshore system) that are not available to smaller, more domestically focused businesses – which are often the true innovators and job creators. Multinationals out-compete and kill their rivals on a factor that has nothing to do with real productive efficiency.

The playing field is not level. This represents one of the great fault lines in global markets.

Which brings us to the concept of fairness. A responsible capitalism involves fair markets, in the sense of a level playing field. But a capitalism responsive to all stakeholders also has to mean fairness in terms of what society thinks is fair.

The best – indeed the only – legitimate arbiter of fairness in this sense is democracy, and democracies around the world, including in Britain, have chosen to attack inequality, and especially extreme inequality. Societies, with the Occupy movement at their forefront, are increasingly demanding this.

Responsible capitalism eschews tax havens. What they offer, ultimately, is escape from the responsibilities of society: disclosure, tax, financial regulation, criminal laws and more, whether by illegal means or not.

The whole point of using the offshore system is to take one's money elsewhere: to sever links with one's own society, to be able to do things you are not allowed to do at home. The term "offshore" captures this elsewhere flavour neatly. The efficiency they offer – the removal of tax, regulations, disclosure and so on – is, almost by definition, the irresponsible kind.

CAPITALISM IN CRISIS

Responsible capitalism can also be understood in terms of its opposite: predatory capitalism. The financial crisis has made it clear what we mean by this: a capitalism that focuses on wealth extraction, not wealth creation.

Tax avoidance and tax evasion are examples of unproductive wealth extraction. The financial sector has turned wealth extraction into an art form. Bankers take huge risks that mean huge profits while the music is still playing – but when the music stops, the risks materialise and taxpayers pick up the bill; the bankers keep their winnings.

The problems posed by banks bring us back to shareholder value. Andrew Haldane, executive director of financial stability at the Bank of England, and one of the most perceptive analysts of the causes of the global financial crisis, explains the problem clearly.

In an earlier age, bankers had unlimited liability: when their businesses went belly up, they lost their shirts. But when shareholder capitalism came along, ownership of a company was divorced from control of that company, and became "vested in a widely dispersed set of shareholders, unvetted and anonymous". Limited liability meant that upside payoffs were unlimited, while society shouldered the catastrophic losses.

"For shareholders," says Haldane, "the sky is the limit but the floor is always just beneath their feet. To maximise shareholder value, therefore, banks need simply to seek bigger and riskier bets."

So a bank's narrow focus on shareholder

FOUR TAKES ON RETHINKING CAPITALISM

"One of the reasons we've seen an erosion of trust in big companies is that they've allowed themselves to be seen as detached from society, and they will float in and out according to the tax regime"

"So capitalism is for poor people and socialism is for capitalists. This view is not just offensive. It is catastrophic. "
Martin Wolf (above, far left), *Financial Times* chief economics commentator, 2007

"It can't be helpful to have your VAT rate as a determinant of where you put your warehouse. It's a basic distortion to fair competition. [The situation] is absolutely nuts. Just as it's nuts for digital service providers – like iTunes and Amazon Kindle – to be located in low tax locations. Unfortunately, all of the high growth digital markets are not delivering the government tax revenue. It is absolutely idiotic."
Simon Fox (above, second left), chief executive, HMV

"I'm afraid it's never going to work if your basic view is that government should just get out of the way. What you need is government willing to take action – willing to stand up to the vested interests. No company that is engaging in predatory behaviour should be too big to challenge.

"We have allowed values which say 'Take what you can, I'm in it for myself'; to create a Britain that is too unequal. The people at the top taking unjustified rewards is not just bad for the economy. It sends out a message throughout society about what values are OK."
Ed Miliband (above, second from right), Labour Party leader

"We have given a lot to Britain, but Britain has given a lot to this company. The company wouldn't exist without the work of British people, the contribution of British universities, the support of the British government. I really believe one of the reasons we've seen an erosion of trust, broadly, in big companies is they've allowed themselves to be seen as detached from society, and they will float in and out of societies according to what the tax regime is. I don't buy that you can be this mid-Atlantic floating entity with no allegiance to anybody except the lowest tax rate... It's completely wrong, I think, to play fast and loose with your connections with society in that way.

"We want to make a return, yes – we're not a charity. We want to make a good return for our shareholders. But we're going to do it by being in step with society."
Andrew Witty (above, far right), chief executive, GlaxoSmithKline

value leads inevitably to predatory capitalism. Once again, we are brought back to Keynes's timeless quote.

To sum up, responsible capitalism creates wealth for society, for the long term. Shareholder capitalism has a role – but subordinate to the bigger picture. Responsible capitalism distinguishes clearly between genuinely productive efficiency on the one hand, and the bogus efficiency that is supposed to flow from removing frictions in economic transactions. And the acid test of responsible capitalism is tax, the ultimate nexus between economic agents and society.

We need a revolution in our understanding of what capitalism needs to be about. The economist JK Galbraith remarked that all revolutions are the kicking in of a rotten door. The economic crisis has revealed just how rotten the door is. But since 2007 the political classes have merely been painting it. The time has come to start kicking it.

Join the debate on the issues raised in this article, or in the rest of our special on responsible capitalism, at icaew.com/economia, or through the economiamagazine group on Linked In. You'll also find more content on our website.

NEXT PAGE SUSTAINABILITY

Sustainability isn't just about keeping customers happy – it can put a smile on shareholders' faces, too. **David Adams** makes the case for going green

SUSTAINABLE GAIN

There may still be hundreds of businesses in the UK led by people who, to be frank, couldn't give a monkey's about sustainability. But whether an entrepreneur or board member is a Green Party card-carrier or a climate change sceptic is becoming irrelevant. There are now just too many good business reasons to adopt a sustainable approach.

Nor has the sustainability agenda been weakened by the recession, because one of the most immediately obvious effects of a sustainable approach is the generation of significant cost reductions.

"This is a bottom line issue," says Jae Mather, director of sustainability at accountancy firm HW Fisher & Co. "It's not going away. It can be cheaper to reduce your costs than to increase your income."

Many organisations that have embraced sustainability now use the concept of the triple bottom line, a concept that involves combining the traditional financial bottom line with metrics for environmental and social impacts. In future, more will use integrated reporting, encompassing the triple bottom line, instead of conventional annual reports.

In part, the advance of sustainability is a consequence of regulatory change. The UK government's Carbon Reduction Commitment (CRC) Energy Efficiency Scheme now requires the private and public sector organisations that consume the most energy per year (only about 2% of organisations) to report energy efficiency in detail. In November, for the first time, league tables revealing their performances in this area were published. It is all but certain that energy efficiency reporting will gradually become mandatory for smaller organisations too.

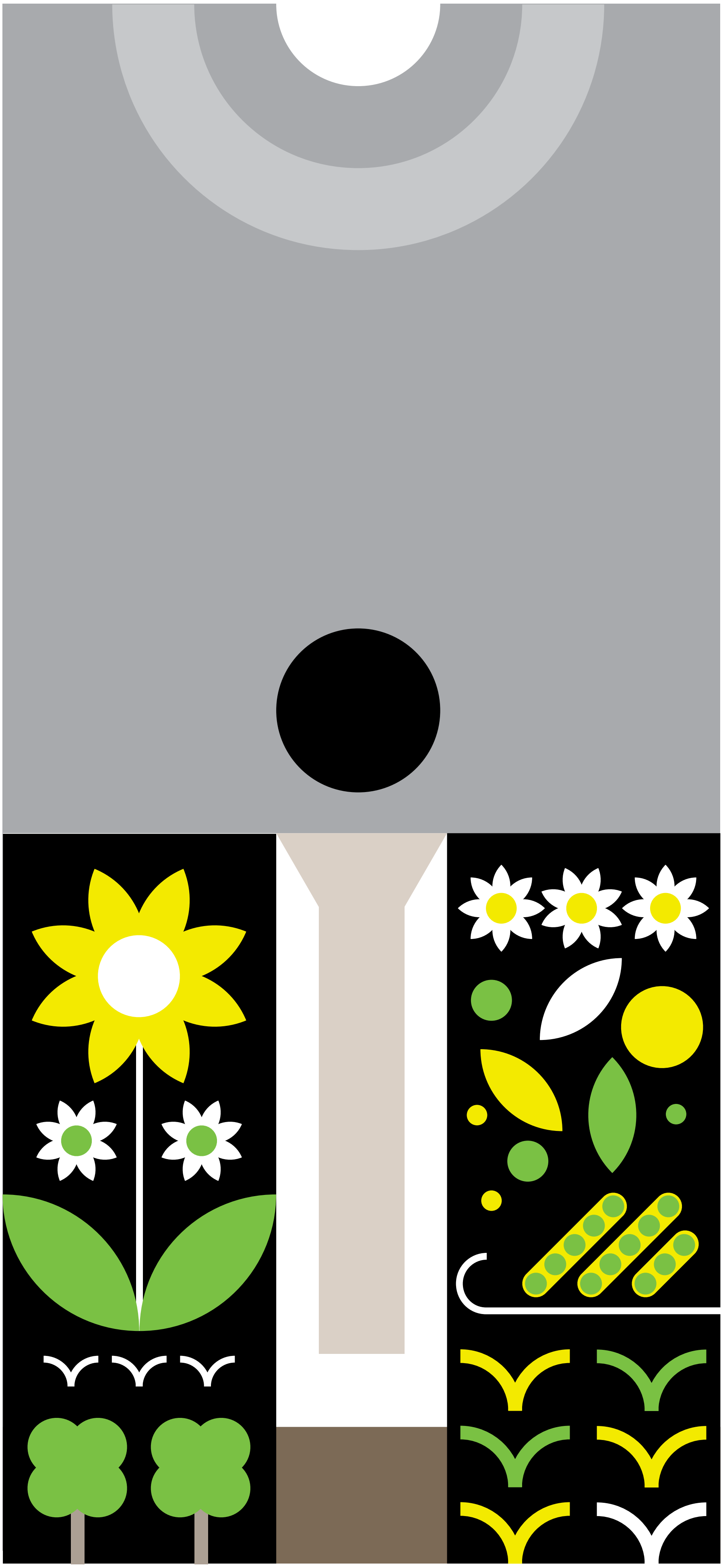
"[The CRC] will lead to radical changes in the way businesses have to report and behave," says Ian Ellis, marketing manager at Siemens Building Technologies, which focuses on helping clients change the way they construct or use buildings. "More and more we find we're speaking to financial people, not just facilities management people, because [energy is] a massive cost – and not a fixed cost either.

"The other knock-on effect is the way organisations are perceived by shareholders, stakeholders or the public. It can have a detrimental effect on your public image if you're seen to be performing badly in this respect."

Retailers, manufacturers and other organisations are also increasingly anxious to avoid reputational damage as a result of working with business partners that behave unethically. It is possible that within the next few years new rules for ethical procurement in the public sector will be introduced, giving suppliers to the public sector another good reason to practise sustainability.

But if the recession didn't stop organisations seeking sustainability, it has forced organisations to focus on the potential financial returns such activities can provide. "There is much more pressure now to deliver a clear, measurable business case," says Andrew Mack, principal at the Boston Consulting Group (BCG). "Our clients are under pressure to reduce costs and find smarter ways of doing things. Sustainability fits within that."

Organisations are also now investing in greener forms of IT. Virtualisation software specialist VMware has claimed that virtualisation (whereby multiple server computers are replicated in a virtual form within a single, more powerful server) can save $700 (£438) in energy costs per server, per year, based on savings of 7,000 kWh. Consolidation of large numbers of servers can multiply these savings dramatically, with a single machine replacing 10 or 20 predecessors. The



layout of server rooms can also be optimised to reduce energy consumption.

Companies that use IT in very intensive ways may also benefit from technologies such as graphics processors (GPUs) instead of CPU microprocessors, which enable faster algorithmic calculations yet consume less electricity.

A Business Sustainability e-learning programme is run by ICAEW for members. "We consider it to be an important business issue," explains Richard Spencer, head of sustainability at ICAEW. "A lot of people talk in terms of what businesses ought to do. But businesses do things because they make financial sense."

He points to Unilever's commitment to try to use only sustainable resources, or Puma's publication of its environmental profit and loss performance as examples. "They're doing this because even in the medium term if these businesses are to continue to exist they need this sort of input," says Spencer. "When Puma did the environmental profit and loss account they identified €145m of impact to the environment: costs nature is absorbing. Puma is saying that sustainability is a fixed point and the business model needs to change. They're asking, 'How can we get rid of that €145m cost?' rather than

“The business case is much bigger than the cash figure. Employees talk about motivation and inspiration. There’s a big brand benefit too”

trying to offset it. Some of the businesses doing this do so because they’ve got that vision.”

However, Spencer believes those companies are still a minority, because even if there is pressure from customers or consumers to behave in certain ways, it is still less important to many investors.

“The big drivers are the potential for additional revenue generation or cost reduction,” he says. “The visionary stuff is for companies with deeper pockets. But hard-pressed businesses are open to ideas around cost savings. If you’re a small business and the Carbon Trust offers you a free survey of your energy consumption they can identify savings you can make straight away.”

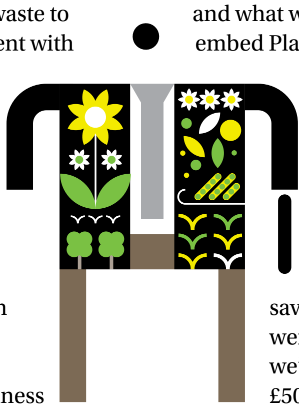
Large organisations that have implemented sustainability initiatives can point to some significant results. In 2010 Unilever introduced its Sustainable Living Plan. Its three goals are to halve the environmental footprint of its products by 2020, to source 100% of agricultural raw materials sustainably; and to help one billion people take action to improve their health and wellbeing.

“Underlying these three big targets are 50 separate commitments,” says Helen Fenwick, Unilever Sustainable Living Plan manager, Unilever UK and Ireland. “They cover everything from salt reduction in stock cubes to reducing the impact of washing our clothes and showering, to the use of renewable energy in our factories.”

Unilever plans to halve the waste associated with disposal of its products by 2020, through reducing, reusing and recycling packaging; and reducing manufacturing process waste. “Since 1995 we have reduced waste by nearly three quarters, [emissions of] greenhouse gases by 40% and water [consumption] by two thirds in our 250 factories,” says Fenwick. “Our 11 manufacturing sites in the UK, two R&D sites at Port Sunlight and Colworth and two major offices in London and Leatherhead no longer send waste to landfill. Following an agreement with [waste services supplier] Veolia 97% of waste is recycled. The remaining 3% is converted into usable energy.” There have also been consumer recycling projects involving plastics and aluminium.

“We see no conflict between sustainable consumption and business growth – quite the opposite in fact – and the business case for growing our company sustainably is compelling,” Fenwick declares. “A growing number of consumers are asking for it. Retailers increasingly demand it: many have sustainability goals of their own but need the support of suppliers like Unilever to achieve them.”

One of the UK’s biggest retail names, Marks & Spencer, launched its Plan A sustainability programme in 2007, making 100 commitments to be achieved within five years. This has now been extended to 180 commitments related to climate change mitigation, waste reduction, use of sustainable raw materials and ethical trading, to be achieved by 2015.



“Because of the scale of our ambition and what we needed to deliver, we had to embed Plan A in the business, getting every bit of the business to own it and drive it forward,” says Adam Elman, head of Plan A delivery at M&S. “We needed programme controls and governance for 75,000 employees.

“By year two we were saving as much money as we were spending. By year three we’d delivered a net benefit of £50m. Last year that had risen to

£70m. So it isn't just a green, fluffy corporate social responsibility programme. It's the right thing to do for sustainability in its wider sense and in terms of the sustainability of the business.

"But the business case is much bigger than the cash figure. Around employees it's about motivation and inspiration. From an employee point of view, working for a business that wants to do the right thing has become a positive. Employees talk about Plan A as a reason to join the company. There's a big brand benefit too."

Plan A has also generated cost savings in the supply chain through measures including use of more fuel-efficient vehicles transporting more products. M&S has also partnered with suppliers to create eco-factories, where new techniques can be trialled. Sustainability innovations tried out in new stores, such as LED lights, sustainable timber and recycled bricks, have since been incorporated into the company's standard store build specifications.

Elman says developing ways of measuring the cost benefits of Plan A has been complicated. "There is no historical precedent, but we've come up with something we think is robust. We have people working on this across the business. It's now part of our financial analysts' roles. It also identifies opportunities. It helps us look at costs and benefits from a total business level – for example, the total costs for printing and paper, ink, technical support and so on. You can look at the whole life cost of equipment and at future operating costs."

Alongside these actions the retailer has nurtured partnerships with other organisations to help reduce negative environmental impacts, such as the Oxfam Clothes Exchange, which stops old clothes going into landfill.

Smaller businesses of all kinds all over the country, from restaurants to retailers and actuaries to electricians, have all benefitted from working towards sustainability. And whatever the size or type of organisation seeking those benefits, there will be a role for accountancy.

"We are trusted advisors, we help manage clients' money and protect against risk," says Simon Mott-Cowan, partner at HW Fisher & Co. "Sustainability is a natural extension of our services. We believe that a strong sustainability strategy is common sense for SMEs. There's a synergy with the work we're already doing."

He suggests it could make sense for companies to combine statutory and carbon audits. In the longer term it is thought that more organisations will aim to provide integrated reporting on sustainability and financial performance. The International Integrated Reporting Committee (IIRC) is a group chaired by Professor Mervyn King that represents members in the corporate, regulatory and academic sectors. In October this year it released a discussion paper on the business case for integrated reporting, and announced a pilot programme in which companies including Microsoft, HSBC and Gold Fields will participate. Some countries, including Denmark, South Africa and China, have made some form of integrated reporting mandatory for companies and it is possible that the UK will one day follow suit.

But the primary motive for most businesses trying to operate in a more sustainable way will continue to be business benefits, rather than regulatory pressure or moral considerations. "There is an absolutely compelling business case for being a more sustainable business, not just a moral case," points out Elman. "It can save you money, inspire your staff and help build your brand."

NEXT PAGE LEADERSHIP

The business leaders of 2050 will have to meet the conflicting demands of sustainability, responsibility and profitability head on. **Joanna Higgins** asks how they can prepare

LEADING THE WAY

Influential investor Jeremy Grantham of GMO sent a succinct quarterly message to investors in December 2011. In it, he bemoaned capitalism's failure to address "the most important and most dangerous issue: depleting resources, development of a comprehensive energy policy, and yes, global warming. Wake up dudes!"

Grantham articulates the growing concerns of a number of influential leaders in business and politics – that capitalism in its current form is no longer fit for purpose. Or at least the unfettered or runaway capitalism of Western markets, with their focus on competition and shareholder returns above all else.

Opinions may vary as to how dramatically economic models must change, but few believe they can stay the same. "You can't look at 2008 and say the system is functioning as it should," says John Coleman, co-author with Daniel Gulati and W Oliver Segovia of *Passion and Purpose: Stories from the Best and Brightest Young Business Leaders*.

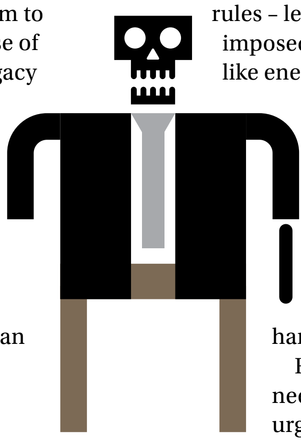
"Capitalism is in crisis because there is a huge and growing disparity in income/wealth distribution in Western economies, and an equally divisive generational disparity," claimed *Businessweek*, quoting a respondent to a Bloomberg Global Poll during this year's Davos summit.

Jo Daniels, marketplace director at Business in the Community, believes that short-termism has eroded long-term value, while demographic shifts, resource scarcity and the move from west to east are leading to "massive shifts in the operating context that demand new business models".

Lack of trust in government and institutions persists, according to Edelman's Trust Barometer, with "principles-based" leadership now a priority. Public mood is shifting from favouring "me first" capitalism to "we capitalism", where a sense of stewardship – of leaving a legacy for generations to come – becomes a leader's primary job.

For John Elkington, co-founder and executive chairman of sustainability think-tank and consultancy Volans, the current upheaval marks an era of Schumpeterian "creative destruction", a "profound economic re-ordering" that will demand a different style of leadership – from governments, from organisations and from individuals.

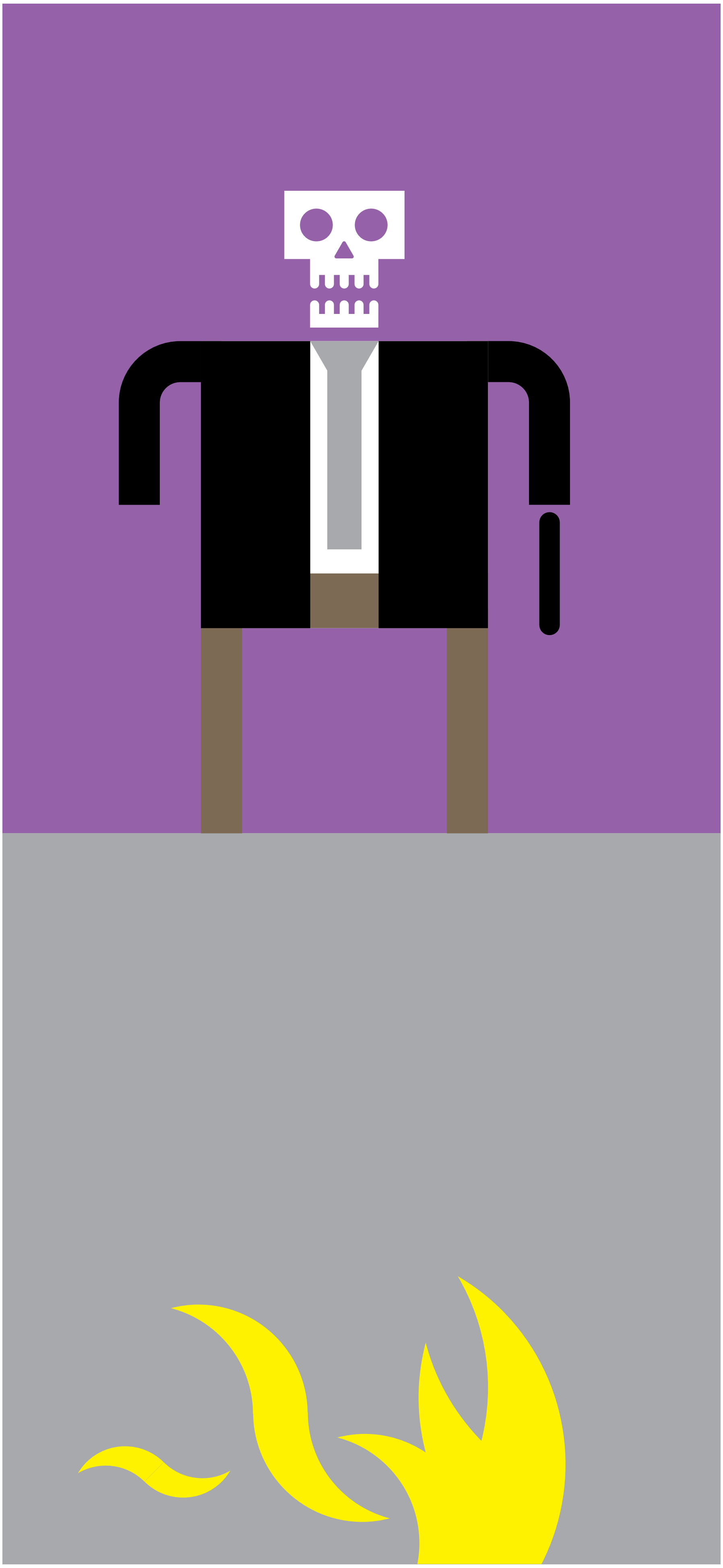
"History tells us that when these periods happen, those who are ill-prepared and unwilling to reinvent themselves go to the wall. Eventually, of course, capitalism will mutate and evolve, but not uniformly around the globe," according to *The Future Quotient*, a Volans report that identifies some of the shifts taking place across global organisations and cultures. Yet, it adds, "Our governments, financial institutions and many business leaders appear to be failing even in terms of the old market rules – let alone the new rules imposed by new considerations like energy, food, water and climate security."



Consultancy Accenture has identified an "implementation gap" when it comes to practising sustainability in its most holistic sense. How do businesses move beyond hand wringing and take action?

For Elkington, what is most needed is a greater sense of urgency. In an upcoming book,

Robert Kennedy's comment about GNP measuring everything except that which makes life worthwhile goes to the heart of the problem



The Zeronauts, and in *The Future Quotient*, he identifies the people who are setting "stretch targets" to bring about "transformative and systemic change".

In the most simplistic terms, they have lengthened and broadened their horizons to consider the long-term implications of business decisions as they affect the environment, society and the economy. The "triple bottom line" or the "triple context", "inter-generational timescales" and "stakeholders" are now invoked to help define sustainable capitalism's concerns. And while cynics may say they've heard it all before, there is a sense that we've reached a tipping point.

"We need to get beyond the either/or idea of economic growth and sustainability," says Tony Manwaring, chief executive of Tomorrow's Company, by looking to natural systems for restorative models like that practised by InterfaceFLOR, the flooring company.

Tomorrow's Company is working on a Stewardship Code that is just one of a number of initiatives aiming to set robust standards for individuals and investment institutions and clarify incentives to support sustainable thinking. The emphasis is on being a "transformational rather than positional" leader. As Herta

> "Recovery will come in investment in long-term, sustainable development – and the ability to drive business around long term value creation"

von Stiegel, CEO of Ariya Capital and author of *The Mountain Within*, puts it: "Focus more on the effect and on creating well-functioning teams."

Future-thinking leaders may need to ask whether they are measuring the right things. Robert Kennedy's 1968 comment about GNP – that it "measures everything… except that which makes life worthwhile", goes to the heart of the problem. If you were to start with a blank piece of paper, how would you define your organisation's purpose? "Decisions on products and services cannot be made solely on short-term financial information," says Manwaring. "Recovery will come in investment in long-term, sustainable development – and the ability to understand, articulate and drive business around long-term value creation. This is the North Star."

Long-term incentives should reward the creation of long-term value. "People behave the way they are compensated and incentivised to behave. Don't expect people to live up to your values if incentives aren't aligned," says von Stiegel. Gamifying rewards – setting up internal honours, for example – will help engage employees and create momentum.

But there's also a need for disruption – a quality long-term thinkers tend to share. Highly innovative, they are likely to challenge the status quo and actively seek new ways of doing things. It's possible to institutionalise this. Shipping company Maersk holds regular meetings to question the relevancy of current strategy. They will also be more collaborative and inclusive. Future leaders need to accept they don't have all the answers, and to cast their net wider to draw on views from beyond the boardroom – notably those of accountants, who are a central source of valuable and trusted information.

Businesses are waking up to the necessary interaction with those outside their sector, says Coleman. "Shareholders are not the only stakeholders. We need to look at how we bring outsiders in, incorporating other stakeholders into our business model – employees, customers, suppliers, even competitors."

Businesses that do this already – using co-creation or crowdsourcing to source new ideas – are already demonstrating its value. This will be second nature, he predicts, for a generation reared on egalitarian media and peer consultation. "If you are an incumbent, reach out to some of the disruptors, such as Shai Agassi, founder of BetterPlace," suggests Elkington.

Other nations, too, may hold lessons for business leaders. "The underlying paradigm is busted in the west – we see business as separate from society, whereas it is more integrated in parts of Asia," says Manwaring. Developing nations are actively looking at how to embed sustainable capitalism in their institutions. Pavan Sukhdev, founder of NGO Green Indian States Trust, has developed a method for publishing "green accounts" for India's states. South Africa's stock exchange is leading on the uptake of integrated reporting.

Individuals like Sukhdev – a career banker – who effectively navigate across public and private sectors will bring lessons from each. "Non profits have a talent for reaching out to different constituencies; businesses are more adaptable and able to make difficult decisions," says Coleman. "Young leaders who can navigate different sectors are a huge asset."

While not a new leadership skill, working in globally, ethnically and racially integrated workplaces will require leaders who can take people as they are and can be open-minded about different working styles and cultures. "It's a recognition of the value of 'bringing the whole person to work,'" says Coleman. "Talent is the most important thing," adds von Stiegel, urging leaders to "focus on demographics where there are opportunities for growth" and to "thoughtfully invest in places that are growing", such as India and Africa.

"It's not enough to say 'we embrace responsibility'. We need to look at the system – and not just among our industry or peers," says Elkington. But how much can individual leaders do? For InterfaceFLOR's Ray Anderson, who committed the company to tough sustainability measures 16 years ago, it was a "spear in the chest" moment – and not a move that Wall Street embraced initially. Individual companies can influence their supply chains – and their industries, but it takes courage.

"This may mean sometimes doing things that look completely counter-intuitive," says Elkington – a big ask, given that leadership thinking and teaching is built around a stable environment. Short tenure and short-term market expectations work against bold moves.

"Individual impetus is needed, but business structures – and the markets – need to support long-term planning," says Daniels. She quotes a BITC survey in which 76% of leaders felt they would need a different business model and 80% acknowledged the importance of championing long-term strategies. Yet only one in six had business plans that extended beyond 10 years – perhaps an indication of how difficult it is to challenge the prevailing methods.

"It's very rare for a CEO to say, unilaterally, 'I'm doing this'. They need the capacity to bring senior people – and investors – along," says Elkington. Being able to show financial benefits – as GE's Ecomagination campaign has, generating $18bn in revenue in 2010 – remains key to galvanising more sustainable investment. "We move the needle when we put financial and intellectual capital into sustainable business," says von Stiegel. "Large pension funds are, by and large, people who will go with the pack, so we

> "It's just a fact that we're moral and social beings. Behaving responsibly as a business works for both selfish and unselfish reasons"

FIVE DIMENSIONS TO HIGH FUTURE QUOTIENT (FQ) LEADERSHIP

1. CHANGE IS SYSTEMIC, NOT INCREMENTAL. AirBnB's global business model is built around customers renting out their homes to visitors.
How you get there: Write down one thing you'd like to change about the rules in which you operate.

2. SCOPE IS WIDER. Organisational thinking and horizons open up, partnerships are formed that help organisations move into new areas. TED uses crowdsourcing and networks to draw together distinctive speakers on a wide range of topics.
How you get there: Draw a map of you/your organisation within the wider stakeholder landscape – without putting your company at the centre. Include at least five relevant organisations that you wouldn't usually consider part of that landscape.

3. ANALYSIS GOES DEEPER. "We must fight to avoid the shallow thinking that is so possible in the word of endless flows of information." Jochen Zeitz, Puma's chief executive, instituted an environmental profit and loss account.
How you get there: Spend some time reading around or watching a talk on a topic you think your organisation needs to understand better.

4. HIGHER SCALE OF AMBITION AND ORGANISATION'S WILLINGNESS TO STRETCH. Raise your targets – despite the instinct to lower ambitions to comfort zone level. Paul Polman, chief executive of Unilever, set out 50 specific commitments to help over 1bn people improve their health and wellbeing, halve the environmental impact of Unilever products and source 100% of its agricultural materials sustainably.
How you get there: Formulate an audacious target and set a suitable time scale.

5. LONGER TIME SCALES. As used at the Long Now Foundation, Natura.
How you get there: Consider scenario planning. Ask yourself how old will you be in 2030 or 2050. What would you want your current self to have done today?

SOURCE: THE FUTURE QUOTIENT, VOLANS

need to find a way to de-risk the model for them." Accounting and auditing professionals are increasingly important here and Elkington predicts the power of CFOs growing over the next decade as different reporting standards evolve.

It's not so much a question of individual leadership, believes Robert Eccles, professor of management practice at Harvard Business School and author of *One Report: Integrated Reporting for a Sustainable Strategy*. "It goes far beyond the individual. Much more pragmatic questions need to be asked around how institutional structures are changing."

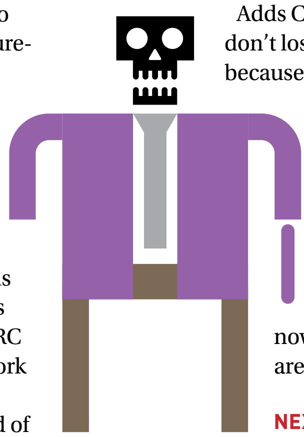
New business models, such as European social enterprises, B-Corps and the flexible purpose corporation in parts of the US, effectively build sustainability into their DNA. But other models that capitalise on emerging e-waste opportunities, for example, can also make incumbents more sustainable. And initiatives are underway to address more institutional concerns – the Forum for the Future's Sustainable Economy in 2040 is looking at capital markets; John Kay is investigating the private equity industry for the UK's Department for Business, Innovation and Skills. The tricky bit is spurring collective action. There is, says Eccles, evidence of groups coming together, but he also suggests companies that have adopted integrated reporting – Novo Nordisk and Brazil's Natura – may offer the best glimpse of the future.

Because IR requires that companies report on strategy and performance and its relationship to financial reporting, it requires management to think beyond quarters. Paul Druckman, the chief executive of the International Integrated Reporting Council (IIRC), explains: "Integrated reporting will show whether management is thinking ahead, looking at the short-, medium- and long-term sustainability of the business. It is effectively asking companies to demonstrate how they are future-proofing the organisation."

This changes the board's focus – making it possible that integrated reporting could be the catalyst that is needed for sustainable capitalism to take root. But balancing the conflicting needs of different stakeholder groups still requires trade-offs. The IIRC is currently creating a framework for integrated reporting that should be complete by the end of 2013, involving 60 companies including Microsoft, Prudential, China Light & Power and Coca-Cola.

Eccles is also involved in the US-based Sustainability Accounting Standards Board, which is working on setting sustainability standards for different industries, defining the performance indictors they need to include in standard reporting.

The hope is that investors will start to view sustainable capitalism in the context of opportunities, rather than obligations. Says Daniels, "So far, we've made small incremental changes. Now, we're looking at how we can take things further, to develop a positive culture."



Adds Coleman, "As a person, you don't lose your responsibility just because you go to work. It's just a fact that we're moral and social beings – and behaving responsibly as a business works for both selfish and unselfish reasons. The changes taking place aren't permanent, and they're not perfect. But 100 years from now, we will have businesses that are better integrated into society."

NEXT PAGE FAIR PAY

The argument over what constitutes fair pay is raging, as the perception of financial executives being rewarded for failure grows. **Christopher Alkan** asks whether executive pay should be capped, and if it's even possible to quantify

FAIR'S FAIR

Britain's best-paid citizens seem to be running out of friends. In early 2010, Richard Lambert, then head of the CBI, warned corporate chiefs that if they were paid salaries that were out of this world they risked being treated like aliens.

His warning, which might equally have been applied to investment bankers, has been vindicated by the backlash against recent pay awards. Compensation for top executives has continued to skyrocket in both Britain and the US, dwarfing gains for investors and wages for rank and file workers. Rewards for bankers, too, have rebounded swiftly after the 2008 financial crisis. Howls of protest from the media and the public were only to be expected. But what's more worrying for big earners is that even traditional allies, such as the Conservative Party, have started to argue that the structure of pay has become unfair.

"We don't object to high pay but we do object to lavish rewards for failure or mediocrity," says Matthew Hancock, a Tory MP and economic advisor to George Osborne. "This is an ethical problem as well as an economic one." What makes pay at the top of business and banking seem excessive is not merely its scale. It is the suspicion that it is no longer linked to the value that an individual adds to a company or to society. It can be argued there's no longer a free market for talent. Rather, bankers have benefited from government policies that rescue failed institutions, while executives exploit failures of corporate governance to grab more money than they deserve.

The fact that top salaries in Britain and America have continued to rise despite the economic gloom of recent years has caused many to suspect that market forces have broken down. Heads of British companies enjoyed a 49% pay rise on average in 2010, according to Incomes Data Services. This far outpaced gains to shareholders in their companies, with the FTSE 100 rising only 15% that year. Nor is the average worker seeing much benefit from the talented people at the top. British workers received an average pay rise of around 2% – not even enough to keep pace with the rising cost of living. A similar picture can be seen across the Atlantic, where salaries for chiefs of S&P 500 firms climbed by 36%. "Chief executives are simply running off with too much of the loot, to the detriment of shareholders and workers," says Paul Woolley, a professor at the London School of Economics and former fund manager. Sceptics also point out that the stratospheric pay of corporate chiefs and bankers isn't universal. It is mainly an Anglo-American phenomenon and top pay is lower in continental Europe and Asia. The White

"Chief executives are simply running off with too much of the loot, to the detriment of shareholders and workers"

House estimates that the average chief executive in the US earns 110 times more than the average worker, while the ratio in England is closer to 80. Meanwhile, a recent study by Towers Watson, the human resources consultant, calculated that German and French chiefs earn less than 20 times the rank and file. Equally low ratios are seen in collectivist Japan and East Asian nations.

But British and American chiefs are not generating the superior returns to justify these vast pay differences. In fact, total returns for shareholders – including dividends – over the past decade have been higher in continental Europe.

The companies in Standard & Poor's Europe 350 index delivered returns of 82% over the past decade, dwarfing the 59% offered by FTSE 100 chiefs. The best paid chiefs of all, those heading America's S&P 500 firms, delivered the worst returns at just 44%. Taken over 15 years, the difference narrows, but European executives still perform the best.

Lord Richard Newby, the Liberal Democrat Treasury spokesman, says that if executive pay were truly set by a free global market, the presence of cheaper executives elsewhere in the world should drive down pay in the UK

"Historically merchant banks were owned by their partners, who were risking their own money"

and US. "Globalisation is traditionally used to justify declining salaries for the poor and higher salaries for the rich," he complains. "In fact, if British companies can get a competent German to do the job for half the price, they should." If anything, British chief executives should trade at a discount to their continental counterparts, he says, since they are typically fluent only in English and are therefore less geographically mobile."

Global competition for talented corporate chiefs is less intense than assumed, says Deborah Hargreaves, who chaired Britain's High Pay Commission. "Over the past five years we only found one example of a successful FTSE 100 chief who had been poached by another company – and in this case he went to another British firm," she says.

With a few notable exceptions, chief executives are competing mostly with a smaller pool of talent within their own nation. Hargreaves believes there is evidence that pay has not been driven higher by competition for the best, but by cosy relationships between executive boards and top executives. And the case against bloated investment banking salaries has become even clearer since the 2008 financial crisis. Wages in finance had been climbing relentlessly since the early 1980s. This was assumed to reflect the expertise and insight of those working in the sector. The 2008 meltdown was a powerful blow to the reputation of these so-called "masters of the universe".

The Conservative Party's Hancock, who recently co-wrote a critique of the banking sector titled *Masters of Nothing*, believes banking pay long ago stopped reflecting the value added by finance professionals. "Historically, merchant banks were owned by their partners, who were risking their own money," he says. More recently they have been betting with other people's money, making it harder to justify such lavish rewards.

Hancock favours much greater accountability in banking pay. He has proposed a new crime of gross professional negligence for heads of systemically important financial institutions whose decisions run the business into the ground. He also believes it should be possible to claw back compensation for up to a decade after it was paid out.

This tougher attitude towards bankers has been gaining ground in recent years. Public hostility to the rewards handed out to executives at the failed Royal Bank of Scotland is the clearest example of this. The bank's chief executive Stephen Hester was pressured into waiving his bonus for 2011 after the Labour Party threatened to challenge the award in Parliament. The stock market value of the bank, which is 82% owned by the state after its government bailout, has fallen by about a third over the past year.

"There is nothing in this record that indicates why he should get a bonus at a time when other public servants like the police are not," says Deborah Hargreaves. "His £1.2m a year salary is already about three times more than the head of the Bank of England is paid."

The government has also withdrawn the knighthood of Fred Goodwin, who was in charge of RBS in the run-up to its near collapse. Bob Diamond, the chief of Barclays Bank, has been the most prominent defender of investment banking bonuses, saying the "period of remorse and apology" was over. But while bonuses give banks flexibility to lower pay in bad times, Diamond's justification of bank pay has annoyed many.

All of which raises the question of how to restore fairness in pay. This can be done more easily when governments have bailed out failed firms, such as RBS

KEEPING BANK PAY IN CHECK

For banking, the same policies that will reduce the threat of big blow-ups may also curb excessive pay, says Professor Thomas Philippon of New York University. Phillipon's research suggests that salaries only become outlandish when financial firms are allowed to assume dangerous levels of risk. Tougher regulation following the 1929 Wall Street crash put huge downward pressure on financial compensation. By 1950 bankers were earning only about 6% more than similarly educated workers who went into other professions, such as engineering. This started to change in the 1980s when politicians in Britain and America began to loosen regulations on banks.

By 2000 financial professionals were earning 40% more than equally qualified peers working in other fields. By 2007 this pay premium had climbed to a whopping 70%. Phillipon believes that proper regulation is a better means of depressing banking pay. "The relative wage of financial workers did not drop in 1929 or even 1930 following the stock market crash and even long bear markets don't seem to make much difference," he says. "The relative wage dropped only after 1934 when new regulations were enforced." Tighter banking rules also appear to have helped spare America from serious financial meltdowns in the following decades. Though the latest burst of financial regulation in the US and Britain is less restrictive than new rules were in the 1930s, they are likely to depress banking salaries over coming years – assuming the rules are properly implemented.

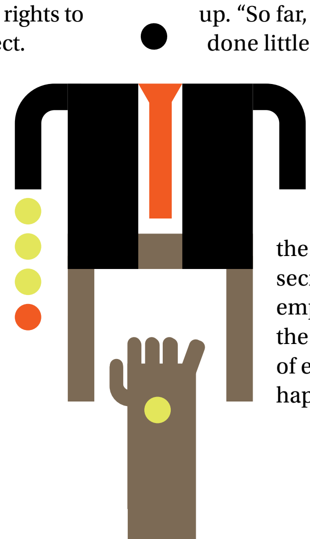
"The relative wage of financial workers did not drop in 1929 or even 1930 following the stock market crash and even long bear markets don't seem to make much difference"

or the US mortgage giant Fannie Mae. Government restrictions on the financial industry have worked in the past (see box, above) but it is not so simple for other firms or industries.

Executive pay in other sectors may be a tougher nut for policymakers to crack. Over the decades, various attempts have been made by to control spiralling pay. In the early 1990s, the US mandated that firms publish details of remuneration in the hope this would shame them into restraint. "Quite the opposite happened," says Dan Ariely, professor of behavioural economics at Duke University, US. "Pay rises actually accelerated as it became easier for chiefs to compare packages." Nor has giving shareholders extra rights to vote down pay had much effect.

Worryingly, the latest measures proposed in both Britain and America are focused on strengthening these existing strategies. This makes experts like Ariely sceptical that much will be achieved. In Britain, for example, the latest proposal by business secretary Vince Cable has two main elements. The first would make the shareholder vote on pay binding, rather than merely advisory as it is now. But this won't achieve much, argues Lucian Bebchuk, a business expert at Harvard University. "Shareholders are already reluctant to vote against the management of a company, and giving them more power is unlikely to change that," he says.

Cable's second suggestion is on transparency. While companies already have to disclose details on compensation, packages have become so complicated that reports can be hard to decipher. A clear, single figure for pay will help, Cable believes. Professor Ariely warns Britain's business secretary not to get his hopes up. "So far, greater transparency has done little to encourage restraint in pay," he says.



To really keep pay fair, more radical measures might be required, according to Chuka Umunna, Labour MP and the party's shadow business secretary. He favours giving employees representation on the committees that set the pay of executives. "This already happens in Germany, Europe's leading economy, and at UK companies including John Lewis, one of our best known firms," he says. "Too often the voice of employees has been silent on executive pay." Some experts believe this has been a driver of lower pay on the continent. So far, such proposals have been opposed by the coalition and are unlikely to be implemented. Hancock believes employee representation would be too complicated to organise and would pose a conflict of interest, since the salary of the staff representative would be set, at least indirectly, by the chief executive.

A growing perception that top pay has become unfair has put pressure on politicians to find a solution. Tighter regulation of banks may cap financial pay and governments can directly influence pay at companies they rescued from collapse. But many experts believe executive pay in the US and Britain will continue to climb in coming years. "Unfair pay is largely the result of an overly friendly relationship between chief executives and the boards that set pay," says Ariely. "There are no proposals on the horizon that are radical enough to change that." If he's right, executive pay will be even more outrageous in five years than it is now.

SUPPORTING MEDIUM-SIZED BUSINESSES

GROWTH FROM THE GRASS ROOTS

They're often cited by the CBI as a potential powerhouse of economic recovery. But medium-sized businesses are often overlooked as media attention focuses on start-ups or large FTSE-listed companies. With the support of **Lloyds Bank Wholesale Banking and Markets,** our Squeezed Middle campaign aims to redress this balance and raise the profile of the sector with investors, policymakers and the public.

With this in mind, *economia* brought 13 prominent figures around a table including directors, chief executives and representatives of bodies that serve and advise mid-sized firms. The panel convened at the Birmingham Hippodrome in February to discuss the ways in which such businesses could boost growth in the UK, and the support that they would need to realise that goal. The session was hosted by David Richardson, regional MD of Lloyds Bank Wholesale Banking and Markets, and chaired by Michael Jones, group editor of PCP, publishers of *economia*.

A theme that swiftly emerged was that of over-regulation. According to Sarah Buckley of ICAEW, recent research suggests that mid-sized businesses are dealing with a disproportionately large regulatory burden, and that government initiatives to lighten it have not yet had much of an impact.

She said, "We did a really interesting piece of research recently on regulation, which asked whether people had heard of the one-in one-out policy, which is something that government has said is a deregulatory policy. Something like 5% of people we asked had actually heard of it, and only 1% thought it was going to do any good." The numerous regulations and directives that arrive

"I've known lots of graduates who work very hard and do unbelievably good stuff. They work hard if you set your structures up right and they think they can make a difference"

Jim Brigden, chief executive, I Spy

from Brussels are proving particularly onerous for mid-sized companies, said John Whitehouse of manufacturing firm Weatherite.

"We're drowning in them," he said. "It's our responsibility as managers to understand these regulations – so we have to have our own people who can provide guidance, and to examine and study the rules so we conform. A lot of people haven't got a grasp of the volume that's being thrust at us. It's a major, major problem."

Nevertheless, it was acknowledged that a robust regulatory regime brings advantages – especially in export markets. Clive Bawden of financial advisory firm Catalyst said, "It's in some ways a good thing for business because you have to go through regulation to make the world's best products."

Philip Salt of manufacturer Salts Healthcare agreed, saying, "I don't like the Brussels stuff, but there's a lot of UK regulation which is really good, especially in the medical area. If we say that we follow the English regulations, then the foreign countries want that. Consequently, our products are accepted and are better than other products."

Buckley spoke of the tension between active government – making strategy and forming initiatives to facilitate business – and the hands-off approach that is favoured by many industrialists.

The panel was asked which policy would best benefit medium-sized businesses. Ray Apted of Pharos Group put forward the case for a laissez-faire approach from central government, speaking of his frustration at continual changes in such areas as tax relief and pension schemes. "It's very simple," he said. "Don't do anything. Just leave it alone. Let's have five years when we're not facing these changes, when we can work closely in partnership with our banks and our professional advisors. When you come to predict, when you plan budgets in business, the one thing you don't know is what is going to happen from other parties, in particular the British government. Just leave the thing alone and let businesses get on with it."

Alex Hyde of Grant Thornton added, "There's definitely a mismatch between the rhetoric and the action. We've got the most complicated tax system in the world. We've got a body set up, the Office of Tax Simplification, to try and address this code, to make it a bit more understandable and logical. And it seems to have got absolutely nowhere."

This fed in to the question of how businesses could best make representations to government. According to Michael Ward of national law firm Gateley, one of the most effective means of pushing forward the interests of medium-sized businesses is the new Local Enterprise Partnerships (LEPs).

He said, "I don't think there's any lack of political will at the moment, so we've got to use that opportunity to get these big messages across, and really set the structure for the next five to 10 years. The opportunity for me is through the LEP."

He explained, "When the Regional Development Agencies were disbanded overnight, we all had a big panic attack – what's going to happen? The government idea was to set up Local Enterprise Partnerships which are business-led. It's a very young scheme, just coming up to its first year. But the strength of the LEP is that it's a very short line into government – it's bypassing Whitehall."

It was agreed that recruiting the right people was essential for future prosperity; and there was energetic debate as to whether schools and

universities were supplying suitable candidates for industry – and in particular, for the manufacturing sector.

Annemarie Wallis of the City of Birmingham Symphony Orchestra queried whether tomorrow's workforce were being inculcated with the dedication to succeed in business. "They've got this instant-fulfilment, celebrity culture," she said. "It probably is good for some industries; but I don't know whether it is so good for some of the more long-term ones; because you spend ages moulding someone to your culture and so on, and they're not going to stay around."

Richardson urged caution in generalising about current school-leavers and graduates. He said, "I've spent a lot of time in Birmingham with some of the youngsters who are making their way in professional careers. There are some amazing talents. I'm not saying they're all amazing talents, but we weren't all amazing talents when we left school either."

His experience chimed with that of Jim Brigden from search marketing agency I Spy. "I've known lots of graduates who have worked very hard and done unbelievably good stuff," he said. "They've worked 60-hour shifts installing service centres, and setting up places in Japan. They work very, very hard if you set up your structures right and they think they can make a difference."

Salt made the point that while the UK education system earns global respect, it is no longer geared to delivering the expertise required in manufacturing. "That's why you're not getting the sort of people you want. A lot of our engineers are coming from the Eastern Bloc countries. They come out with engineering degrees and they're very good. Whereas we look to take [UK graduates] and make them into engineers."

Apprenticeship was a subject picked up by Whitehouse. "It's definitely the way forward," he said. "It's fundamental to any business, not just in manufacturing, that you need to bring people up; and the best way to train people to suit your business is to take them on as apprentices. They pick up the culture – and adopting the culture in your business is crucial."

It is a topic close to the heart of Oliver Nyumbu – who, alongside his work as chief executive of leadership consultancy Caret, sits on the UK Commission on Ownership. He has closely examined Germany's successful Mittelstand model of mid-sized businesses. "We have far fewer companies in that category – family owned companies that really act globally – than they have there," he said.

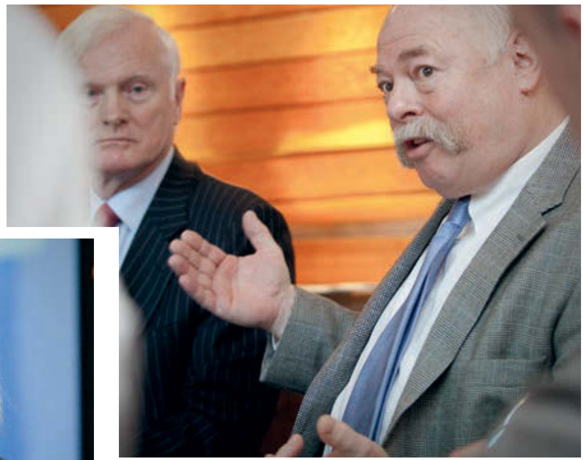
"One of the hallmarks of the Mittelstand is what I call the T-shaped approach to doing things. They say, 'I can't afford to do everything, so I'll be highly specialised' – but the horizontal bar is their globalisation. They say, 'I can't afford to be left in my home market; I have to be global'.

But there's also an issue around apprenticeships, where people are inducted into the discrete family values of the business in a strong way. The long-term perspective [of the Mittelstand] is to say, 'I have to manage this business as though it'll be around for 200 years.' How many UK corporates think like that?"

There are other aspects of the German business culture that produce a more supportive environment, said Andrew Litchfield of manufacturing and retail company AAC Group. "In 1995, I visited a German company. They had sent an invoice to Porsche and then received a cheque back two working days later. They had never heard of a late-payment mentality. If large organisations, which have much better access to credit, paid on time and had their payment terms reduced, then I would anticipate that a huge amount of cash could be injected back in to the economy."

Exporting worldwide, as a means of helping the

WORDS: WILLIAM HAM BEVAN / PICTURES: SOPHIA SCHORR-KON



“When German companies do a trade mission, the government puts an awful lot of money behind them. When the Brits do it… the firms have to fund it themselves”

Clive Bawden, business development director, Catalyst

UK economy grow its way out of recession, was a recurring theme – with differing perspectives on the practicalities of doing business with non-traditional markets.

On trading with Japan, Brigden said, “I think our two nations are very similar. They’re competitive, they’re aggressive, and they’re a sea-trading country on the edge of a big continent. I’ve got some Japanese people coming to our office who are very interested in taking some of our technology and licensing overseas, and they’re great to do business with. So how can we embrace the future rather than protect the past?”

Salt said, “I think that’s a very important point. Everybody’s talking about barriers; but really, the only way is to have the best product at a competitive price, and that’s what we need to drive them. It won’t necessarily keep you in business, but if you don’t have it, you won’t get it.”

Hyde added, “There’s a lot of doom and gloom here about all the regulation and the government. But there are a lot of fantastic stories in the mid-market of UK companies in this region and elsewhere manufacturing in a variety of sectors, who are world-leading companies. We’ve got fantastic IP, fantastic technology, good people, and are now starting to go into those export markets and grow the businesses.”

Bawden said that that the way Germany does business with the Far East may usefully be compared with Britain’s approach. “We’ve done some work with the China-Britain Business Council about entering China. One of the observations they make is that German firms do a lot of trade missions; and when they do a trade mission, the German government puts an awful lot of money behind them.

“When the Brits do it, it’s generally either low profile or with few people, and the firms have got to fund it themselves.”

Of concern to many of the panel were protectionist measures taken by other countries, and how they could be overcome – as well as whether they should be emulated here. Litchfield wondered whether there should be a tax incentive for British companies to buy within the country. “I’d love some clever economic statistician to say, if you spend a certain percentage more on buying British it’ll save you, because that means people off benefits and tax on company profits coming back into the system.

“I’ll throw in a daft idea – the more you buy in the UK, the lower your tax rate. There’s got to be some way these clever guys can come up with something that encourages this.”

Richardson drew the session to a close by asking the panel for their forecasts for the coming year. “I think we are seeing some encouraging signs in the UK,” he said. “On 27 July, London 2012 kicks off – we’re hosting the biggest international event in the world, that has to be at least one good reason for some optimism.”

“My view is that we’re bouncing positively along the bottom, and maybe by the time we get to the second half of the year, the environment will be better. I want to know, is that fair, or am I way off the mark?”

Brigden said, “I’m in a media and technology business and there’s massive growth and opportunity. There’s iPad sales – five million in the UK, 20% growth over the Christmas period – and smartphones are everywhere. Lots of British companies manufacture things that go into those

THE SQUEEZED MIDDLE PANEL

David Richardson
regional MD,
Lloyds Bank Wholesale
Banking and Markets

Michael Jones
group editor, PCP
(publishers of
economia)

Andrew Litchfield
finance director,
AAC Group

Sarah Buckley
public affairs
manager, ICAEW

Clive Bawden
business development
director, Catalyst

Phillip Salt
chief executive,
Salts Healthcare

Annemarie Wallis
finance director, City
of Birmingham
Symphony Orchestra

Ray Apted
owner, Pharos Group

Jim Brigden
chief executive, I Spy

Mike Ward
senior partner, Gateley,
and president of the
Birmingham Chamber of
Commerce and Industry

Alex Hyde
director, Birmingham
Transaction Advisory
Services, Grant Thornton

John Whitehouse
chairman, Weatherite

Oliver Nyumbu
chief executive, Caret

"People are optimistic in the short term but uncertain in the long term. People just don't know what's going to happen"

Sarah Buckley, public affairs manager, ICAEW

devices. Usage grows and technology businesses are growing. We've got a long, hard struggle, but I'm optimistic about this year."

Apted was more guarded, and pointed to the predictions of RBS chairman Sir Philip Hampton in the February issue of *economia*. "When asked how worried we should be about the euro, he replied, 'Terrified'. He knows a lot more about that than I do. That doesn't stop you or me from being highly successful. We've got plenty of companies around the table which buck the trend. But I think there's a case to be concerned."

He advocated that company growth should come from funds already held in reserve, rather than through leveraging – a viewpoint also espoused by Whitehouse. He said, "If I were chairing this session, I'd be encouraging anybody to be conservative and not to go into a leveraged situation. I think what the responsible businessperson needs to do is to make sure that whatever his investment or development plans are, he can finance them."

Ward commented, "Most of the banks' chief economists would have the view that the fiscal tightening hasn't even happened yet. In the next four years, the amount that's budgeted to go out of the economy and bring that debt down is the largest number that anybody's ever seen. We don't know what the effect of that is going to be – or whether the government's got the resolve to do it."

This sense of uncertainty, Buckley said, often came up in conversations that ICAEW had with members and businesses as part of its qualitative research. "On the ground, people are quite positive," she said. "A lot of people are saying, we've got growing markets, we're exporting. There are lots of opportunities, we're taking people on, everything seems really gloomy but actually, I'm not having a bad experience at the moment.

"But then when you look at something like cash reserves, people just don't know what's going to happen. They know that the spending cuts haven't started yet; they know that it's completely uncertain what's going to happen in the eurozone. So people are optimistic in the short term but uncertain in the long term."

Hyde said, "I suspect we'll see a bumpy ride for a long period; but there is pent-up opportunity there. There are private equity houses sitting on a lot of cash. Banks are lending to big businesses, but deals are taking longer to do because as you go through the process, you find issues, and acquirers and funders just want to see another month's trading, to see whether this recovery is actually solid. They just want to see what's around the corner.

"We are looking at forecasts in a lot more detail because nobody quite knows what's going to happen. I'm optimistic – but I think it will be a long time before we get out of the status quo."

ANOTHER PLAY IN PARADISE

Starting and investing in small businesses is what chartered accountant Michael Dexter-Smith does best. Now based in Hawaii, the self-styled working class boy from Leicester has never been afraid to take a chance. He tells **Amy Duff** what keeps driving him

The sun's just coming up – that's going to be a lovely sunrise," says Michael Dexter-Smith from his deck on the Hawaiian island of Kauai in the Pacific. No wonder the chartered accountant is glad he decided to keep "rolling the dice" and seize every opportunity that came his way. Over the past three decades it's taken him from Leeds in England to Wellington in New Zealand, Cleveland and Boston in the US and now a place he describes as paradise.

In between starting and investing in small businesses through his private equity firm Pine Brook Ventures, he's also treasurer of the Hanalei Community Association, executive director of the Association of Chartered Accountants in the US, a high-school football referee and a keen gardener. He may be thousands of miles from home but he couldn't be happier.

Dexter-Smith, 59, describes himself as a working class boy from Leicester, but he admits it takes a certain type to tear all that up and move on. "Chartered accountants tend to be on the more conservative side but I've been willing to take a chance," he says. Having travelled round the world six times and visited about 52 countries he's also aware there's a flipside to taking unusual paths. "My life has been punctuated by sharp turns. I have no pension, I can't afford to retire and at the moment I'm asset-rich but hugely cash-poor. At times I've put my house on the line," he says.

"Throwing away all you've established to start over somewhere else is scary. Fortunately I have a wife who's happy to take the turns with me."

Dexter-Smith qualified as a chartered accountant in the UK in 1978 and learned his trade at Price Waterhouse. He worked for the company across three continents for nine years in audit, computer audit and small business. Describing the experience as a "great stepping stone and a way to travel the world" he also recognises that his time at the accountancy firm taught him many of the skills he later relied upon in industry.

"The analysis of issues, compartmentalisation of ideas and problems, the definition of language, the clarity of a process... All have many parallels in the software industry," he explains. "And I'm very organised, which is another thing that chartered accountancy taught me. I have great scheduling skills, I'm good at putting down ideas, getting people organised. And I'm customer-oriented. Price Waterhouse taught me so much that I appreciate now."

Nevertheless, it wasn't his dream to become a partner. He left the company to work in the software industry, initially as chief financial officer at technology firm MSP and then as chief executive with four other companies, including two he bought: Carleton Corporation and Xtremesoft.

He says he tries to work on a "magic number" of 14 projects or ideas at any given time, but that at least one needs to be successful. "You've got to catch hold of one and make some money, otherwise the rest could be absolute drains. I've made money on one or two and probably lost money on a good portion – 15 or 16," he says.

Not that money has been his driving force. Dexter-Smith reckons just chasing profit "carries you off in all sorts of wrong directions". That's why he feels investors make for bad board members – "their focus is different", he says. He continues, "Venture capitalists would sit on my boards never having run a company or really knowing what it was like to do so and then try and tell me what I was doing wrong. I wonder how some high-flying companies today ever made it."

So what does he bring to the table as an investor? Honesty, experience and the genuine desire to add value, he says. "I've got past the awkward side. I tell it as I see it. At my age, I feel like I've seen most things now. I always refer to myself as the grown-up in the room," he says. "I don't mean to be derogatory but I've had the experience, I've got the grey hairs to prove it."

That means he has a very good idea what businesses are going to run into three months

LAUREN FLEISHMAN

down the road. "Business isn't about being nice," he says. "It's hard, it's cut-throat, you have to learn."

He points out that failure in the US is the same as success in the UK. "So if five go south and just one goes right you are a hero. The glass is always half full here. Trying is as important as failing. The people who have failed are often the ones who know how to succeed the next time around."

Dexter-Smith is keen to use his experiences and apply them to new areas. He finds technology a particularly compelling area. Last year he co-founded discounting platform paytodiscount, for example. But he also feels it's his responsibility to give something back.

He describes an area in the Pacific where waste gathers that's dubbed the Great Pacific Garbage Patch, which he believes is about the size of Texas. "My company, Twisted Plastics, is developing two lines of re-use options for recycling plastics in third world countries," he says. "It will solve the problem of plastic bags in the environment and gives an economic incentive – you can't just tell people to pick up plastic bags. Let's stop thinking about it as a problem and think about how we're going to harvest it instead," he says.

Even if he wanted to retire, Dexter-Smith says he can't afford to. Fortunately for him, Hawaii is a lovely base to work from – "not quite as sophisticated as the mainland US and certainly less hectic than the UK". And that ensures his flow of ideas never dries up. "I've got three projects

"Trying is as important as failing. The people who have failed are often the ones who know how to succeed the next time around"

with China Telecom to evaluate at the moment," he says. "And I run a little project here called the Hawaii North Shore Venture Gang. We're about 20-odd people who get together on a monthly basis and bring ideas in. I keep rolling the dice, keep putting it in."

Although he admits he's been guilty of throwing good money after bad in the past, he's also learned to recognise when it's time to move on. "Today the time to failure is really quick. Once you know it is over, it's over. Go and do something else," he says.

He sees business and entrepreneurship as being very similar to baseball – because you're in it for the long game. "You play for nine innings and every now and again you get a home run and you get a few singles. I've hit one hard in the appliance space and a couple of soft singles in other areas, but equally I've had one that snagged at the wall for a big loss.

"But however bad it is, you keep playing the game, keep making contacts, try as hard as you can". And on that note he ends our conversation to go and start his working day. In paradise.

Briefing
Professional standing, unfair dismissal and reporting

Key emerging issues this month include small entity reporting and a disincorporation relief update

STATEMENTS OF PROFESSIONAL STANDING

1 As part of the Retail Distribution Review, ICAEW is the first UK accountancy body to secure accredited body status from the Financial Services Authority. You can apply now for an ICAEW Statement of Professional Standing if you are:

- an ICAEW member or affiliate;
- a member of another accountancy body or the Institute and Faculty of Actuaries;
- an employee of an ICAEW member firm;
- an employee of an audit registered firm or firm licensed by ICAEW under the Designated Professional Body regime; or
- a principal or employee of a firm controlled or managed by ICAEW members and ICAEW members' firms, at the discretion of ICAEW.

Details will be published on the *economia* website at icaew.com/economia and in the April edition of *FS Focus*

SMALL ENTITY REPORTING

2 The European Parliament is considering introducing a new accounting directive. This sets out a simplified disclosure regime for small companies, limiting the full accounts they are required to prepare to an abridged balance sheet, profit and loss account and five stipulated notes.

Crucially, "maximum harmonisation" is proposed, so EU countries won't be allowed to require additional disclosures. Once UK legislation implementing the new directive is in place, FRSSE will no longer be consistent with the law, as the disclosures it requires are in excess of those in the draft directive. The ASB plans to consult in advance on options for FRSSE's replacement.

Also accounting simplifications for micro entities have been adopted into EU law, so the final shape of the UK small entity reporting regime is far from clear. ICAEW is working hard to influence the debate.

Send your comments to frfac@icaew.com.

DISINCORPORATION RELIEF

3 The Office of Tax Simplification has made a recommendation to assist very small companies that would prefer to disincorporate.

The proposal, set out in *Small Business Tax Review: Final Report, Disincorporation Relief*, would enable a company holding internally generated goodwill, as well as land and buildings and plant and machinery used wholly for the trade, to pass to an unincorporated structure, with no tax charge arising on the company and no distribution charge on the shareholders as a result of transfer. The proposed relief would only apply to trading companies.

Copies can be downloaded from hm-treasury.gov.uk/ots

GOOD FRIDAY FOR STATUTORY INSTRUMENTS

4 Friday 6 April is one of two main dates in the legal calendar when statutory instruments come into effect. These include *The Unfair Dismissal and Statement of Reasons for Dismissal (Variation of Qualifying Period) Order 2012*, increasing to two years the qualifying period required to qualify for the right to claim unfair dismissal. *The Employment Tribunals Act 1996 (Tribunal Composition) Order 2012* enables employment judges sitting alone to hear certain unfair dismissal cases. *The Pensions Act 2008 (Abolition of Protected Rights) (Consequential Amendments) (No 2) (Amendment) Order 2012* removes protection given to protected right payments in bankruptcy proceedings.

The Guaranteed Minimum Pensions Increase Order 2012 specifies 3% as the percentage by which that part of any guaranteed minimum pension attributable to earnings factors for the tax years 1988/89 to 1996/97 and payable by contracted-out, defined benefit occupational pension schemes is to be increased. *The Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2012* sets the level of the lower earnings limit for primary and secondary class 1 contributions for the coming tax year.

UPDATED GUIDANCE FOR REPORTING ACCOUNTANTS

5 The ICAEW Corporate Finance Faculty is revising ICAEW's 1995 guidance for reporting accountants involved in company listings in the light of changes in regulation and market practices. A working group has developed an exposure draft of new guidance based on consultation it carried out in June 2010. The new guidance complies with the international framework for assurance engagements. It addresses the regulatory obligation of directors of a company seeking to float to keep themselves informed about the company's financial position and prospects and contains material on procedures to assist them to do so. It highlights the importance of the risk assessment they should perform under the rules.

The exposure draft, *Guidance on Financial Position and Prospect Procedures*, can be downloaded from icaew.com/cff.

To find out more about these or other important technical updates, visit icaew.com/economia/technicalupdate

Updates

QAD IS COMING

Practice assurance is starting its second cycle of visits. Some firms which had visits in 2005 may well have their second visit from ICAEW's quality assurance department (QAD) in 2012. Avoid any pitfalls and make sure you prepare for QAD's visit. Contact QAD on +44 (0) 01908 546211 with any questions.

We'll be looking at what's been achieved in the first round of visits in the next issue of *economia*.

SERVICES REGULATIONS

On 28 December 2009, the *Provision of Services Regulations 2009* came into effect. These affect any firm that takes on new clients after that date.

ICAEW's quality assurance department (QAD) has found that many firms have not yet updated procedures to comply fully with the new regulations. Some are confused about what information they have to make available at all times compared to information clients or potential clients can request.

According to the regulations, information must be provided to clients and others wishing to use the services of a firm of chartered accountants or other businesses. For example, service providers must provide new clients with:

- contact details of their insurer; and
- territorial coverage of their insurance.

ALTERNATE ARRANGEMENTS

Sole principals are urged to establish appropriate arrangements to secure the continuation of their accountancy practice in the event of their incapacity or death.

ICAEW published expanded guidance on making such arrangements for both principals and their alternates in November last year. The helpsheet, *Alternate Arrangements for Sole Principals*, covers three options and includes checklists and an example agreement.

If you need to discuss your situation, call the ICAEW helpline on +44 (0)1908 248250. For legal advice, ICAEW offers a free legal helpline for members and students provided by PURPLE on +44 (0)845 567 6003.

More advice on the three items above can be found at icaew.com/en/members/advisory-helplines-and-services/practice-helpsheets

PRACTICE COMMITTEE

Don't suffer in silence or keep your bright ideas to yourself. The ICAEW Practice Committee (IPC) is the representative body of practitioners that champions solutions to the problems practitioners face, and the opportunities they foresee.

The committee's remit is to advise on the services, guidance and communications that practices need from the institute, to provide a practitioner's viewpoint on issues as they arise and to be a forum for raising any matter coming from practice that needs the institute's attention.

So far the committee has advised the ICAEW council on Pathways, provided guidance on the new Business Advice Service, increased small practice representation on key ICAEW working parties, advised on audit exemption impact and is currently working with CABA on providing more support for practitioners.

Practitioners wishing to raise any practice-related issue with the IPC should email practice.committee@icaew.com

CGT INDEXATION ALLOWANCE

The indexed rise to be used in calculating the indexation allowance in respect of gains made on assets disposed of in January 2012 is:

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
January	0.992	0.828	0.755	0.726	0.684	0.630	0.585	0.541	0.492	0.457
February	0.980	0.818	0.746	0.715	0.675	0.620	0.577	0.535	0.485	0.454
March	0.960	0.811	0.741	0.709	0.670	0.614	0.571	0.532	0.480	0.450
April	0.902	0.788	0.715	0.693	0.650	0.597	0.560	0.523	0.464	0.441
May	0.886	0.783	0.709	0.687	0.645	0.591	0.557	0.517	0.456	0.437
June	0.878	0.775	0.709	0.688	0.645	0.589	0.556	0.511	0.457	0.437
July	0.877	0.779	0.715	0.692	0.653	0.596	0.562	0.511	0.460	0.442
August	0.858	0.775	0.713	0.684	0.645	0.588	0.555	0.502	0.454	0.438
September	0.841	0.768	0.707	0.677	0.641	0.580	0.547	0.494	0.448	0.432
October	0.827	0.762	0.701	0.678	0.639	0.589	0.547	0.492	0.447	0.429
November	0.831	0.755	0.704	0.681	0.638	0.589	0.546	0.491	0.448	0.428
December	0.832	0.754	0.710	0.677	0.630	0.579	0.541	0.488	0.448	0.423

The RI month is the month in which the allowable expenditure was incurred. The table given is applicable only to bodies within the charge to corporation tax on their

RETAIL PRICES INDEX

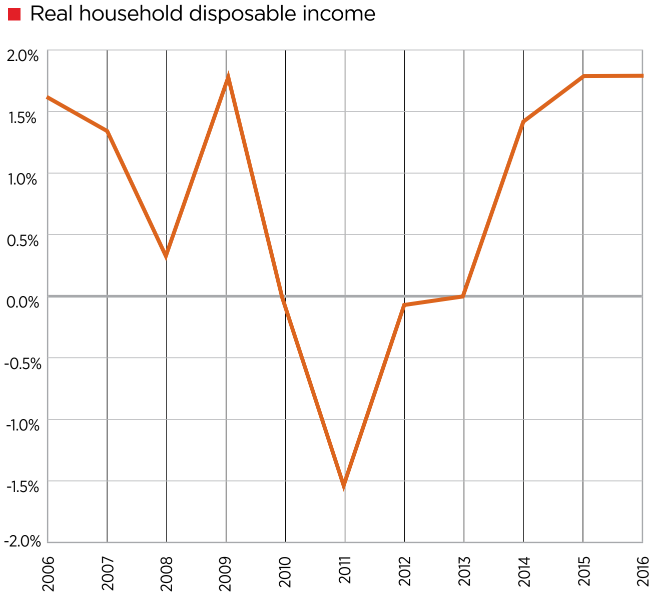
Retail prices for January 2012. Jan 1987 = 100.

	2008	2009	2010	2011	2012
January	209.8	210.1	217.9	229.0	238.0
February	211.4	211.4	219.2	231.3	–
March	212.1	211.3	220.7	232.5	–
April	214.0	211.5	222.8	234.4	–
May	215.1	212.8	223.6	235.2	–
June	216.8	213.4	224.1	235.2	–
July	216.5	213.4	223.6	234.7	–
August	217.2	214.4	224.5	236.1	–
September	218.4	215.3	225.3	237.9	–
October	217.7	216.0	225.8	238.0	–
November	216.0	216.6	226.8	238.5	–
December	212.9	218.0	228.4	239.4	–

For more historic data, go to the ONS website at bit.ly/y8xSXy
Source: Office for National Statistics © Crown Copyright

For regularly updated data and tables, visit icaew.com/economia

REAL HOUSEHOLD DISPOSABLE INCOME, ANNUAL PERCENTAGE CHANGE



This chart brings the fall in household disposable incomes into stark perspective. That sharp dip below 0.0% is, put in simple terms, debt. And while it may seem to be good news that we are currently on an upward trajectory, the low point from which we are returning means that, by 2013, real household disposable income will still be 5.7% lower than in 2007.

Source: Cebr analysis.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
0.429	0.391	0.373	0.334	0.300	0.260	0.231	0.181	0.134	0.133	0.092	0.039	NIL
0.421	0.384	0.369	0.327	0.295	0.255	0.226	0.172	0.126	0.126	0.086	0.029	–
0.413	0.382	0.364	0.323	0.289	0.249	0.221	0.164	0.122	0.126	0.078	0.024	–
0.399	0.375	0.355	0.313	0.282	0.242	0.211	0.159	0.112	0.125	0.068	0.015	–
0.394	0.366	0.351	0.311	0.276	0.240	0.204	0.154	0.106	0.118	0.064	0.012	–
0.391	0.365	0.351	0.313	0.274	0.238	0.199	0.148	0.098	0.115	0.062	0.012	–
0.396	0.373	0.353	0.313	0.274	0.238	0.199	0.155	0.099	0.115	0.064	0.014	–
0.396	0.368	0.349	0.311	0.270	0.236	0.195	0.148	0.096	0.110	0.060	0.008	–
0.386	0.363	0.340	0.304	0.265	0.233	0.189	0.144	0.090	0.105	0.056	0.000	–
0.387	0.365	0.338	0.303	0.262	0.231	0.188	0.139	0.093	0.102	0.054	NIL	–
0.383	0.371	0.336	0.303	0.259	0.229	0.183	0.135	0.102	0.099	0.049	NIL	–
0.382	0.373	0.333	0.297	0.253	0.226	0.174	0.128	0.118	0.092	0.042	NIL	–

chargeable gains. **For more historic data, go to HMRC website at bit.ly/gC0TnW** Source: HMRC © Crown Copyright

Do the right thing

Business is full of ethical dilemmas. But can regulation help accountants to deal with them? **Lesley Meall** considers the issues

Sophie is an accountant with a problem; you could call it an ethical dilemma. She has been asked to identify "non-revenue generating" customers so that her employer, a medical supply company, can cease trading with them. Sophie's problems start when her task generates a list of charitable relief organisations, and she decides to do the right thing. She spends her own time checking her employer's costs to see if she can identify any potential cuts. In the process she discovers that a contract to supply 500,000 kits of medicine for delivery to Somalia includes a large commission payment to a Kenyan distributor.

Sophie asks for an explanation and is told, "When supply trucks leave Kenya the backs are stuffed with medical kits and the glove boxes are stuffed with cash". This is so that when the drivers are held up at illegal roadblocks they can pay up, rather than be shot. Sophie is no longer sure what is the right thing, or how to do it. She is aware of her legal responsibilities, the ethical guidelines of her profession, and the procedures and structures her employer has. But the consequences of putting them into practice is keeping her awake at night.

Ethics are complicated. The world has no single, universally-accepted set of rules or principles for ethical behaviour. But while philosophers can philosophise, accountants have no such luxury. The profession has to debate ethics, reach conclusions and take actions in the knowledge that they will be scrutinised, analysed, discussed, questioned and tried in a court of public opinion – where appearances matter more than substance.

FUNDAMENTAL PRINCIPLES

"Over the past few years, perception has been driving the debate on professional ethics," says Martyn Jones, chairman of ICAEW's ethics standards committee. ICAEW's Code of Ethics demands the highest standards of ethical behaviour through its fundamental principles: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Failure to conform can lead to fines or expulsion. These principles inform the UK Corporate Governance Code (see box, right) and the Audit Firm Governance Code. But the European Commission seems to be leaning towards more rules.

"I think it is a sad thing that in discussions about ethics people always start talking about rules and laws," says Jones. Codifying everything could turn accountants into box tickers and lead to a mindset where people believe that anything they do is fine as long as they don't break any rules, he adds. "Ethics are about trying to do the right thing even when nobody is looking," says Jones. But he knows appearances matter too, and accountants must consider how their actions could look. He says, "You have to ask yourself, 'How would this appear to readers of the *Daily Mail* or *Private Eye*?'"

Firms of all shapes and sizes are well aware of this. "We have a plethora of procedures, codes of conduct and manuals," says Scott Barnes, chief executive of Grant Thornton. "But it is just as important to have a culture where people are comfortable about speaking out, and we have encouraged that."

Would more laws lead to a more ethical profession? At the regional firm George Hay, legislation such as the Bribery Act and Anti-Money Laundering (AML) Regulations have been built into the relevant guidelines, training and procedures, but the impact on ethics seems to have been limited.

"Before, if we suspected a client of some sort of wrongdoing, the dilemma was, 'Does this go beyond our ethical guidelines, and do we want to disengage?'" says Toni Hunter, partner and George Hay's AML reporting officer. "We always erred on the side of caution. Now we are duty bound to blow the whistle. If a client is being deliberately evasive, if there are strange cheques leaving an account, or there is simply any doubt, staff members know they must report this to me. Then I decide if this should be logged with the Serious Organised Crime Agency, and tell the employee involved to keep their eyes and ears open, without changing their behaviour, so as not to alert the client to the fact that they are under suspicion."

Accountants in industry also believe that they can be relied on to behave ethically without more rules and regulations. "I look back at my ACA training and it clearly showed the ethical approach required," says Jonathan Coiley, finance director at Acorn Engineering Group, who qualified before ICAEW introduced the Structured Training in Ethics programme. "When an ethical issue lands on your doorstep there is adequate guidance open to you," he says. As well as the Code of Ethics, ICAEW provides helplines and online support, though Coiley adds, "My ethical approach as an FD fundamentally rests on my nature to be honest, fair and correct in everything I do."

RIGHT FROM WRONG

Rohan Hewavisenti, director of finance and business at the British Red Cross, is certain that, regardless of rules and regulations, there is a basic level at which people know what is wrong and what is right – even if they don't always do the latter. "I recall being very disillusioned 20 years ago when some Lloyds names lost a lot of money and the government stepped in to give them a helping hand. This has now repeated itself with the banks," says Hewavisenti. So, soon after qualifying as an ACA, he decided to "do something more rewarding" with his career, and moved into the third sector.

There are many different ways of reconciling your personal moral code with that of your chosen profession. But what society considers immoral or unethical changes. And it may sometimes be appropriate to tolerate a lesser moral evil in order to avoid a greater one. Practices of questionable morality in one place, or culture, or religion, are judged acceptable or even desirable in others. For example, in China, it can be considered the done thing to make business decisions based on what's best for your family. In the UK, that may be considered nepotism. There are grey areas – both inside and outside the profession.

Take the thorny issue of tax avoidance and tax evasion. "There could be a perception that accountants are walking near to the edge, but we have a centralised function in the tax practice that constantly reviews our policies and procedures to ensure that we don't," says Barnes. But microeconomic behaviour can have macroeconomic consequences, as Prem Sikka, professor of accounting at the University Of Essex, points out. "There are lots of examples of things that were considered avoidance until they were challenged and then they became evasion," he says, "but there is a limit to how many resources the state can spend addressing this."

Head off down this particular road and you quickly arrive in an ethical quagmire. A place so complex and multi-faceted that it's nigh on impossible to agree on a single, universally-accepted set of rules or principles for ethical behaviour. So where does this leave the profession? Trying to do the right thing and be seen doing the right thing in a world that is fraught with the dangers of moral relativism and pragmatism. And where does this leave Sophie? Well, it's probably going to be a while before she gets a good night's sleep.

> "I think it is a sad thing that in discussions about ethics people always start talking about rules and laws. Ethics are about trying to do the right thing even when nobody is looking"

ICAEW is shortly publishing a report into integrity, offering some practical solutions for organisations seeking to promote and encourage integrity.
For a solution to Sophie's dilemma, visit icaew.com/economia

THE COMPLY OR EXPLAIN APPROACH

The UK's Corporate Governance Code is overseen by the Financial Reporting Council (FRC) and is based on the "comply or explain" approach. In February the FRC published a paper to promote a better understanding of what is required from companies when they don't comply with the code and need to provide an explanation of their reasons.

Baroness Sarah Hogg, chairman of the FRC, said, "The comply or explain approach has given us flexibility and enabled us to raise the standards of UK corporate governance in ways that regulation cannot always achieve. This exercise is designed to reinforce our approach at a time when Europe has shown signs of driving towards more prescriptive regulation with a consequent diminution of shareholder rights. It should also make shareholders better equipped to push for full explanations on the relatively rare occasions when these are not forthcoming.

"We will now consider whether to incorporate the conclusions of this paper into our forthcoming consultation on revisions to the governance code."

Disclosure discomfort

Campaigners are calling for total transparency, but country-by-country reporting is a step too far for many companies. **Gavin Hinks** looks at the arguments for disclosure

CORBIS

Surely Bill Gates can't be wrong? In November last year the Microsoft founder, charity advocate and multibillionaire gave a speech that cited the arcane subject of country-by-country (CBC) reporting. Gates gave it his wholehearted backing, saying, "All G20 countries should require the mining and oil companies listed on their stock exchanges to disclose payments to governments."

The measure, which aims to force the extractive industries to publish what they pay to the governments of developing nations, has been highly controversial. The US, though still working on the final form, has already voted through its own contentious version. And now the European Union is pushing through similar measures. But will it achieve the aims campaigners set for it? And could opponents still derail it?

Country-by-country reporting, an issue relevant to all multinationals, has become a burning issue for campaigners, NGOs and lawmakers as they try to force big businesses to reveal their financial dealings in developing countries. The underlying motive is to shed light on the payments being made to governments, the tax avoidance practices that might be employed and, in particular, whether sophisticated transfer pricing strategies are moving much-needed revenues away from cash-strapped nations.

The idea dates back 10 years to when NGOs began discussing how multinational companies could be forced to reveal their financial relationship with developing nations. Since then tax and its avoidance has become one of the core issues attached to the corporate social responsibility agenda pursued by many lobby groups, and CBC reporting has become a key demand.

NGOs intent on change include Christian Aid, Publish What You Pay, the Tax Justice Network, Global Witness and Revenue Watch, all calling for mandatory CBC reporting. The issue has also been discussed by the G8 nations at the highest levels and has emphatic support.

In a 2010 paper, *Shifting Sands: Tax, Transparency And Multinational Companies*, Christian Aid said tax havens were partly to blame for the financial crisis by hosting the off-balance sheet operations of big business. It called for CBC reporting as part of the solution. In the same year US lawmakers surprised observers by including CBC reporting in the Dodd-Frank Wall Street Reform Act.

The campaign's focus has been to have the measures included in accounting standards set by the International Accounting Standards Board (IASB). Nicholas Shaxson wrote in his book *Treasure Islands* last year that if companies were made to break down their financial data country by country it would "vastly increase the transparency of markets, informing investors about where their money was being used, helping governments understand how they were being fleeced through offshore strategies and how competitive markets were being distorted".

Heeding the call, others have acted ahead of the IASB. At the end of October last year, European commissioner Michel Barnier revealed that he would, after a long consultation, include elements of CBC reporting into rewrites of two directives on accounting and transparency. This would apply to public companies in the extractive industries.

At the time he said the commission had with these measures established itself as "an avant garde in promoting transparency and goes well beyond the US Dodd-Frank Act, putting the interests of developing countries at the forefront of this European domestic legislation".

Contained in Articles 37-39 of the commission's Accounting Directive, the CBC provisions make tough demands of businesses. They ask that publicly listed extractive companies disclose annual payments made to governments and the type of payments made, among them taxes, royalties and dividends. The directive also orders the disclosure of payments on a project-by-project basis.

There has been a tentative welcome for these provisions from campaigners and big corporates, but neither side is happy

Tax and its avoidance has become one of the core issues attached to the corporate social responsibility agenda pursued by many lobby groups

with the outcome. CBC supporters claim Barnier's measures fall short of expectations and will fail to deliver the reforms originally conceived. Companies argue that the directive simply will not create a fair and level playing field on which they can do business.

However, if they believe that the proposals are flawed, there is still much to play for and plenty of time in which arguments can be made.

The two key directives are now in the hands of committees at the European Parliament, where MEPs must debate their merits, take forward changes and give them the thumbs up. The lead body will be the legal affairs committee, although the views of the economics, foreign affairs and development committees will also contribute.

The legal committee wants to have the directives discussed, amended and voted on by July, which gives all sides at least another two months to potentially make their mark on the new laws. Initial views have already been heard and the committee is in the process of accepting amendments, which have to be in by early May. A parallel process will be under way in a working party of the Council of Europe, giving further lobbying opportunities.

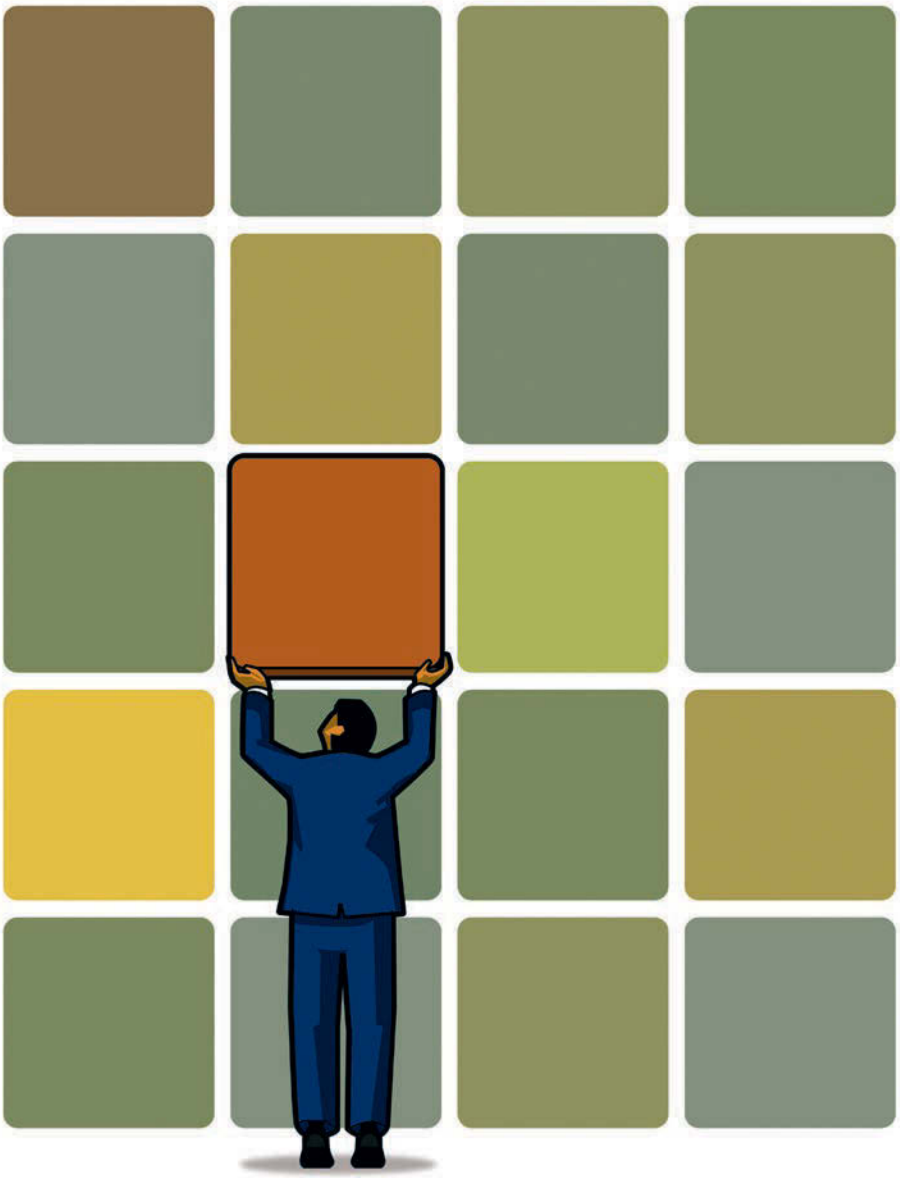
And the lobbying is being taken seriously. A group of organisations including mining companies Rio Tinto and Glencore-Xstrata plus energy giants BP, Shell and Total have engaged Brussels-based specialist g+europe to help contact the right politicians and get their arguments across.

But for all the nodding of heads and positive action, many organisations see total transparency as counter to their best interests.

In next month's issue we investigate why there's some reluctance to commit fully to the new proposals.

Finance restructuring

A new financial regime is on its way and, says **Nick Martindale**, accountants must be ready to manage a lot of change in a short timeframe



CORBIS

Even the harshest critic of the Financial Services Authority (FSA) – and there are plenty around – would struggle to lay the blame for the economic crisis in its entirety at the doors of the soon-to-be-defunct organisation. But there is little doubt that its failure to identify the wider systemic cracks in the UK's financial infrastructure facilitated the journey to the edge of the economic abyss, and it was no great surprise that the coalition government decided to abolish it soon after coming to power in May 2010.

Whether the proposed new regime, with its tripartite structure consisting of the Financial Policy Committee (FPC), the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), will fare any better remains to be seen, but it certainly has implications for those working in the accounting and financial services sector.

In theory, the new structure should bring greater clarity about where responsibility lies. The FPC will focus on macro-economic issues around financial stability – the bigger picture that many felt the FSA failed to see. The PRA will regulate organisations such as banks, investment firms and insurance companies with complex balance sheets. For its part, the FCA will monitor the consumer side.

"It allows each part of the new structure to have a clear focus," says Iain Coke, head of the financial services faculty at ICAEW. "So you shouldn't have to worry about the FSA putting a lot of effort into an initiative about treating customers fairly in the run-up to a crisis and then, when a crisis hits, putting a lot of effort into the prudential side." He adds: "The idea is that there will always be someone focusing on the particular areas."

The fact that the Financial Services Bill, which is currently working its way through Parliament, also makes it clear that the Treasury can direct the Bank of England to take action in the event of a crisis is also welcome, says Coke, creating clear lines of responsibility.

But John Hitchins, senior banking partner at PwC, has concerns over the proposed new structure, if not the intentions behind it. "They now have two

> "In terms of client asset money reports, we've noticed a move towards having to disclose everything and anything"

regulators and inevitably there will be some conflict and overlap," he says. "The most obvious example is if you're going to effectively impose swingeing penalties on an institution for breach of conduct of business rules, you're weakening its capital strength from a prudential side."

There are also doubts over whether even two agencies are capable of dealing with the amount of regulatory change around at the moment, adds Hitchins, with the move towards ringfencing high street banking operations suggested by the Vickers report likely to create another formidable challenge.

Coke admits there is concern that some of the skills and experience needed to set up and run the new authorities may be lost, particularly given the length of time between the announcement of the reforms in 2010 and their expected introduction at some point in 2013.

"Whatever the structure, the quality of regulation and supervision will depend on the quality of people that are doing the job," he says. "There have been a number of senior departures and some of that is to be expected, given the scale of the criticism of the FSA. But there is potentially an issue that if people are concerned about their jobs they might look elsewhere and the danger is that the ones you want to keep may be the ones who are most marketable."

Andrew Davidson is director of consultancy Novo Altum. He, too, is concerned about the transition process, pointing out that the FSA had already taken steps to address its own failings in the wake of the 2008 crisis. "The risk is that now the focus goes on how we manage the transition from the current organisation to a new governance structure, as opposed to how we improve the governance itself," he says.

There will be practical implications for accountants and their clients in terms of how and what they are expected to report and in getting used to the new structure. Larger financial services organisations will, in the FCA and PRA, effectively have two regulators, says Coke. "There's a risk that they may not fit together as easily as if they came from a single body, because of the different objectives of the two organisations," he says. "We've not got down to the business of making new rules under the new structure and a lot of them emanate from European directives anyway, so it may be that you have the same rules, but that may not be the case. It's also an extra relationship to manage."

On the accountancy side, bigger firms which currently have FSA-regulated businesses as part of their structure – working in areas such as financial planning or wealth management – may also be regulated by the FCA, he adds, and the exact nature of its approach is as yet unclear.

Ian Benson, director of financial services with commercial law firm Maclay Murray & Spens, warns that the new regime is likely to put further pressure on firms as auditors and providers of Skilled Persons Reports, particularly around accounting estimates and related disclosures. "It is also possible that the new agencies may be looking to fill any accounting skill gaps by passing on issues to the profession for analysis and resolution, through the exercise of their powers of supervision," he warns. "Some commentators have even gone as far as to compare this to outsourcing."

More generally, accountancy practices are already detecting a shift in the reporting landscape. "In terms of client asset money reports, we've noticed a move towards having to disclose everything and anything," says Simon Speller, partner at Hillier Hopkins. "In the past if a firm made a disclosure or had spotted that they had made a mistake, we as auditors didn't have to disclose that. But now it's a full disclosure on absolutely everything." Such regulatory changes require investment in skills and additional hours, he adds; fees which cannot always be passed on to clients.

Helen Besant-Roberts, business services partner at HURST, broadly welcomes the move towards tighter regulation. "The laxity and abuses which were allowed to occur under the previous regulatory regime have done damage to the public perception of, and trust in, the financial services industry as a whole," she says.

"That said, I am concerned that it is the smaller providers who will suffer. Our clients already feel as though they're in an acronym wilderness – FSA, PRA, FPC, FCA, GABRIEL, RDR – and increasing complexity is likely to only make things worse for them."

Davidson at Novo Altum says, "It's important people start trying to plan ahead and think about where they're going to find the level of resources needed to deal with all this. Typically organisations man themselves efficiently to manage the status quo. You don't staff yourselves to go through major restructural change all the time."

Share scams and bribes

Failing to carry out a proper risk assessment and facilitating bribery have resulted in reprimands and fines for two ICAEW members

BOILER ROOM FRAUD

Chartered accountancy firm Sedley Richard Laurence Voulters (SRLV) and its managing partner, Laurence Finger, have been severely reprimanded by an ICAEW disciplinary tribunal after unwittingly getting involved in a multi-million pound share scam.

SRLV client Natrocell Shareholders Ltd (NSL) decided to raise funds through a sale of shares purportedly to help its wholly-owned subsidiary, rodenticide manufacturer Natrocell Technologies Ltd (NTL), build up its business.

NSL engaged various entities, mostly outside the UK, to sell the shares. They were not authorised by the UK Financial Services Authority nor were they regulated in the jurisdictions where they were based, and turned out to be share fraud operators or boiler rooms.

SRLV managed and operated two client bank accounts for NTL and all the SRLV partners were signatories. Between May and December 2008 a total of £2.7m was credited to the accounts, at least £2.56m of which came from investors who had bought NSL shares. SRLV then paid out £2.4m to beneficiaries in the UK, Switzerland, Cyprus, and elsewhere. Very little money made its way to NTL.

On seven different occasions over the same period, investors raised serious concerns with the firm about NSL but the only action Finger took in his capacity as SRLV's money laundering officer was to consult the client partner, who reassured him. On 11 November 2008, the FSA ordered the firm to cease any activities relating to NSL shares.

After a two-year investigation, the FSA fined Finger £35,000 and banned him for life from acting as a money laundering officer. He had failed, it concluded, to identify, adequately assess and report the potentially suspicious nature of the multiple payments the firm had made "despite there being clear indicators".

The firm was fined £163,140 on the basis that it had not undertaken any proper risk assessment. The tribunal agreed with the findings, saying that "the association of a chartered accountancy firm with a boiler room fraud would undermine the confidence the public hold in the profession".

> It was "a serious abuse of a position of trust involving large sums of money"

BRIBES THAT DIDN'T PAY

A member has been thrown out of the institute for facilitating bribes to the tune of HK$1.125m (£92,000). Kwoo Seng Heng admitted that he had failed to question the legality or appropriateness of payments he made to Norman Elliott, the disgraced former general manager of London Standard Bank's Hong Kong office, in connection with loans from the bank to Heng's client, Shenzen Yiwen Industrial Company Ltd (SYIC).

Between January 1994 and March 1995, Heng handed over a total of HK$500,000 to Elliott on behalf of SYIC. He also admitted passing on payments totalling HK$625,000 in connection with loans Elliott arranged for another company, PYCY International. Elliott was later found guilty of accepting bribes and sentenced to four years' imprisonment by Hong Kong's Independent Commissioner Against Corruption.

Heng also admitted that he had allowed a company affiliated to his audit firm to act on Elliott's behalf as a nominee director of Asia Pacific Leasing, an audit client.

The ICAEW disciplinary tribunal said that, while it made no finding of dishonesty against Heng, what he did amounted to "very serious professional misconduct" as it was "a serious abuse of a position of trust involving large sums of money, a lack of professional integrity and the obtaining of advantage for himself".

The tribunal excluded Heng from ICAEW membership and recommended a minimum of two years before he could apply for readmission. He was also ordered to pay costs of £5,000.

Report listings

The reports that follow are summaries. Copies of the full reports are available from icaew.com/publichearings or from the Professional Conduct Department, ICAEW, Metropolitan House, 321 Avebury Boulevard, Milton Keynes MK9 2FZ

DISCIPLINARY ORDERS

● Mohamed Sarwar Mughal of 6 Audley Road, Hendon, London NW4 3EY
Complaint Between 27 October 1998 and 6 October 2009, he engaged in public practice without holding a practising certificate contrary to byelaw 51a of the Principal Byelaws. Between 27 October 1998 and 6 October 2009, he failed to arrange qualifying insurance as required by regulation 3.1 of the Professional Indemnity Insurance Regulations.
Decision The complaints were found proven, other than in relation to the period 1 January 2008 to 6 October 2009. He was severely reprimanded, fined £3,000 and ordered to pay costs of £3,000. He was also ordered to pay £500 a month for a year, the first instalment to be paid by December 2011.

● William Scott Miller of 10c Ravenna Road, Putney, London SW15 6AW
Complaint Between 31 January 2007 and 31 January 2011, he failed without any good reason to certify compliance with his Continuing Professional Development requirements for the years ending 31 October 2006–2009. This is regarded as serious misconduct as in in breach of principal byelaw 56(c).
Decision Reprimanded, fined £1,500 and ordered to pay costs of £1,465.

● Fowziah Sham of 15 Burleigh Gardens, London N14 5AH
Complaint Between 1 January 2000 and 7 February 2011, she engaged in public practice without holding a practising certificate contrary to principal byelaw 51a. Between 1 January 2000 and 1 February 2011, she engaged in public practice without having professional indemnity insurance as required by regulation 3.1 of the Professional Indemnity Insurance Regulations. She admitted both complaints.
Decision Severely reprimanded, fined £6,000 and ordered to pay costs of £1,847.

● Richard David Arthur of Old Cadet House, Le Mont Mallet, St Martin, Jersey JE3 6DX
Complaint Between 24 November 2010 and 9 June 2011, he committed a breach of the byelaws in that he failed to respond to a letter from ICAEW, dated 22 November, relating to a serious matter involving concerns about his fitness and propriety raised by the Jersey Financial Services Commission. In failing to respond, he was in breach of disciplinary byelaw 13.
Decision Severely reprimanded, fined £2,500 and ordered to pay costs of £1,049.

REGULATORY DECISIONS: AUDIT REGISTRATION COMMITTEE

● King Morter Proud & Co of King's Arms Vaults, The Watton, Brecon, Powys LD3 7EF
Complaint The firm was in breach of a condition and restriction imposed under audit regulation 7.01.
Decision The firm admitted the complaint and agreed to a regulatory penalty of £2,500.

● Hayward Wright Ltd of Prospect House, Church Green West Redditch, Worcs, B97 4BD
Complaint The firm was in breach of audit regulations 6.06, 3.20 and 2.03(a) in that it (i) incorrectly completed its 2011 annual return; (ii) failed to conduct an audit compliance review; and (iii) failed to ensure a non-member principal held audit affiliate status between 1 November 2010 and 4 November 2011.
Decision The firm admitted the complaint and agreed to a regulatory penalty of £3,500.

● Drummonds, Chartered Accountants, of Heritage House, 235 Main Street, Gibraltar
Complaint The firm failed to comply with the requirements of the Audit Regulations.
Decision The firm's registration as company auditor was withdrawn on 13 January 2012 under regulation 7.03(h) of the Audit Regulations and Guidance 2008.

● S Nunn & Co Ltd, Chartered Accountants, of Unit 2, Guards Avenue, The Village, Caterham on the Hill, Surrey CR3 5XL
Complaint The firm failed to comply with the requirements of the Audit Regulations.
Decision The firm's registration as company auditor was withdrawn on 25 January 2012 under regulations 7.03(g) and (h).

INVESTIGATION COMMITTEE CONSENT ORDERS

● Alan Merrett of 5 Eastcourt, Salisbury Road, Netheravon, Salisbury SP4 9EE
Complaint Between 1 February 2003 and 26 May 2011, he engaged in public practice through X without being in possession of a practising certificate, contrary to ICAEW's principal byelaw 51a.
Decision Reprimanded, fined £1,000 and ordered to pay costs of £930.

● Dawn Bray of 110 Whitchurch Road, Cardiff CF14 3LY
Complaint She was a director of X Ltd, a company engaged in public practice, which had an administration order made against it on grounds of insolvency on 3 March 2011.
Decision Reprimanded and ordered to pay costs of £1,246.

● Anthony Baker of 493a Caerphilly Road, Rhiwbina, Cardiff CF14 4SN
Complaint On 30 June 2010, at Cardiff County Court, he was disqualified under s6, Company Directors Disqualification Act 1986, for a period of four years; and he was the director of A P Baker & Co, a company engaged in public practice, which, on 2 April 2008, was the subject of a winding-up order under the Insolvency Act 1986.
Decision Severely reprimanded, fined £2,000 and ordered to pay costs of £1,005.

● Bevan & Buckland of Langdon House, Langdon Road, Swansea Waterfront, Swansea SA1 8QY
Complaint The firm prepared the financial statements of X Ltd for the year ended 30 September 2008, which were filed on 31 March 2009, but failed to advise the directors that the company did not meet the conditions for exemption from audit under s249, Companies Act 1985, as its gross assets exceeded the audit exemption threshold of £2.8m.
Bevan & Buckland also prepared the financial statements of X Ltd for the year ended 30 September 2009, which were filed on 15 May2010, but failed to identify that the company did not meet the conditions for exemption from audit under s477, Companies Act 2006, because its gross assets exceeded £3.26m and the company did not qualify as a small company.
Decision Reprimanded, fined £2,000 and ordered to pay costs of £1,908.

● Daragh Duffy of 15 Griffith Park, Londonderry BT48 8PE
Complaint Between 1 January 2008 and 5 August 2011 he engaged in public practice contrary to regulation 18 of the Learning and Professional Development Regulations.
Decision Reprimanded, fined £2,000 and ordered to pay costs of £1,517.

● G Roberts of Watergate House, Watergate Street, Chester CH1 2LF
Complaint Between 10 October 2008 and 19 July 2011, he engaged in public practice without holding a practising certificate, contrary to principal byelaw 51a.
Decision Reprimanded, fined £1,000 and ordered to pay costs of £1,130.


THERE'S
ONLY ONE
CHAMPIONSHIP
DUNLOP

Life

"That's what holidays are for; for one person to tell stories and another to dispute them" Lara Flynn Boyle

IAN TEH/PANOS

It's a bumper bank holiday year – we suggest where to go if you don't want to be beside the seaside, as well as looking at the best fairtrade products, how yoga can keep you flexible and a sparkling alternative investment

THREE DAY WONDERS

This year brings a bumper crop of national holidays, and the intoxicating prospect of many long weekends. **Penelope Rance** takes a flight of fancy with different ideas for making the most of your precious time off

Two weeks in the sun may seem a distant dream for the hard-pressed small practitioner, and an impossibility for those juggling multiple clients within a large firm. This year offers a ray of hope. Courtesy of the Queen's Diamond Jubilee (thank you, Ma'am), the UK gets an extra day off, and a late Easter means more chance of warm days to enjoy.

But rather than taking the Eurostar to Paris again, or hiring that same cottage in Cornwall, why not entertain some more unusual ideas for a few days away? Here are our top picks, both close to home and further afield.

HOME FROM HOME

There's a peculiar joy to being a tourist in your own country, experiencing places you've seen before from a more relaxed perspective. You might head to the capital for weekly business meetings or commute every day, but a long weekend in London gives you a new view of the city.

While London is awash with hotels, it's much more comfortable to stay in someone's home. With a home stay, you get all the comfort without the housework. Vive Unique has more than 200 properties across the city – choose the family home, pied à terre or designer hideaway that suits you, and book for a single night or long weekend. We love a converted silk weaver's loft in Spitalfields, all Georgian features and designer touches over five floors, with the curiosities of Spitalfields Market and Shoreditch nightlife a short walk away.

Each property is immaculate and well equipped so you just turn up and settle in. The company can also arrange airport collection, babysitting, laundry, fridge stocking and theatre tickets.

Properties from £85 per night, *viveunique.com*

NATURE'S FINEST

There's no better place to enjoy the peace and beauty of the English countryside than the Lake District. And few places are as typical of the Lakes than Windermere. Set in the hills above Lake Windermere, the traditional Samling Hotel offers 67-acres of beautiful woodland, a sculpture park in the garden and a fine-dining restaurant offering a menu full of fresh, seasonal, local produce.

There are cycling and walking paths to the Lake, Ambleside is a 20-minute walk, while the hotel can suggest more demanding treks in the local hills.

Across the Pennines, the Yorkshire Dales National Park is the ideal place to commune with nature. The rugged landscape, ancient woodland, waterfalls, dry stone walls and windswept coves will soon blow away the office fug.

From top: Brenners Hotel offers relaxation and art holiday packages; the Samling Hotel is set in beautiful surroundings; enjoy a pampering break at Kempinski Hotel Barabos Bay

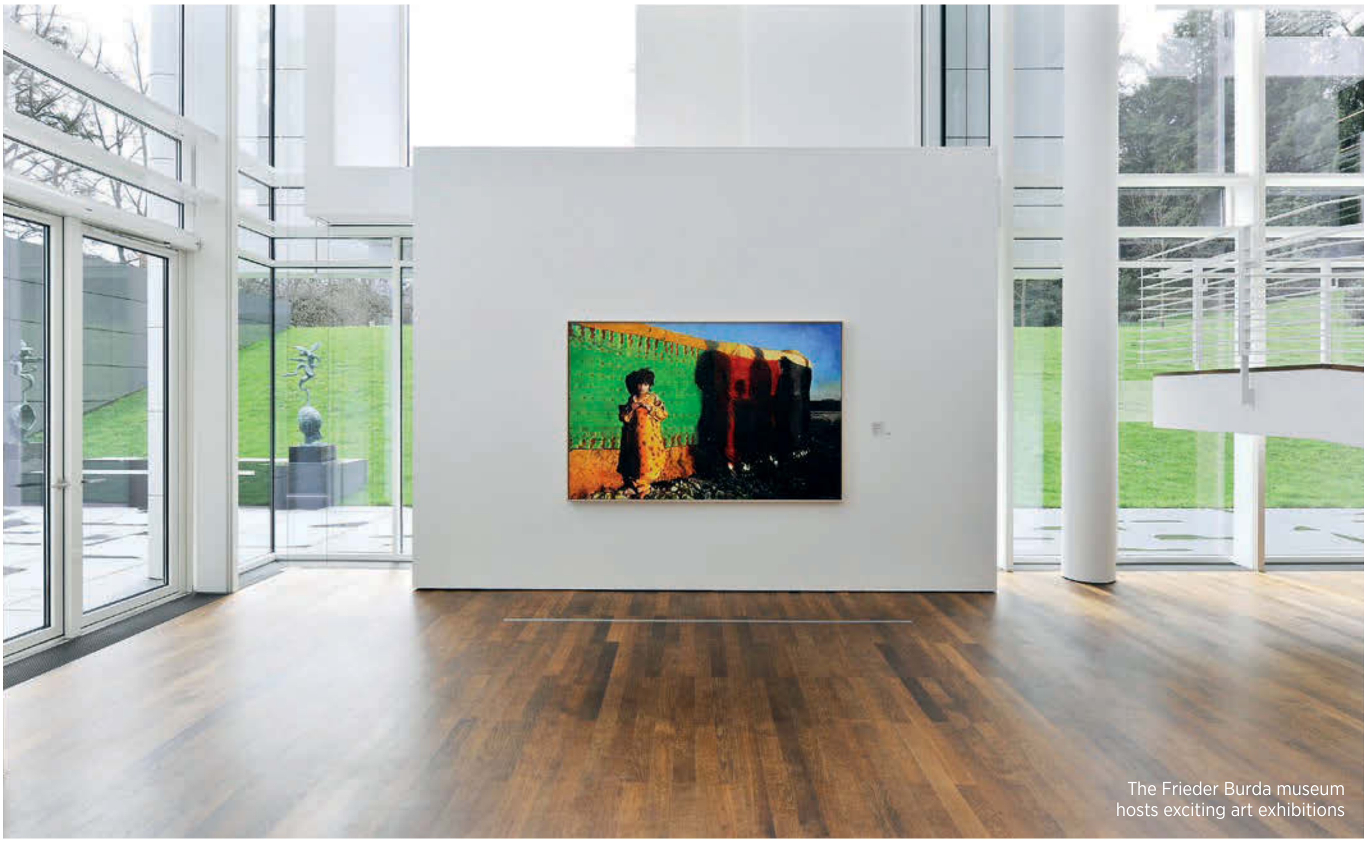
Combine the pure air of the Dales with a clear conscience by staying at Natural Retreats in Swaledale. Set in a private reserve on the edge of the park, it is built from sustainable timber and the latest in green technology such as recycled insulation, living plant roofs and biomass heating. Using only local spring water and renewable energy, the residences have no carbon footprint.

A double room with breakfast at the Samling costs from £230 a night. *thesamlinghotel.co.uk*

Three nights in high season for a residence sleeping six, at Natural Retreats costs £790. *naturalretreats.co.uk*

WINE WORSHIP

If you were inspired by February's feature on investing in wine, spend a long weekend in the oenophile's paradise that is the Rhône Valley. For those who love a city break, Orange is an ideal destination – in the heart of the wine region, it has plenty of restaurants serving Provençale specialities; a Roman history still evident in the theatre, aqueduct and forum; and an average 300 days of sunshine per year. For a quieter retreat, the village of Gordes is the epitome of French charm. Built around a château, its cobbled streets,


The Frieder Burda museum hosts exciting art exhibitions

churches and art galleries will leave you wishing you could spend a year in Provence.

As you tailor your holiday to suit your tastes, so you can design your wine. The Lavau winery offers wine-making courses, allowing you to create your own vintage. Benoit and Frederic Lavau run three cellars in the southern Rhône Valley, vinifying almost all of the appellations in the area, from Côtes du Rhône to Chateauneuf du Pape.

You can get in on the act. Armed with test tubes and tasting glass, and attired in a fetching overall, you will be guided through the traditional varietals of the area and then let loose to create your own blend. You will be presented with your bottle to take home and, in case it's more experimental than excellent, you can also invest in some of the Lavaus' more practised blends.

Wine-making course, €30, *lavau.eu; otorange.fr; gordes-village.com*

HIGH ART

If the gentle light of spring during the bank holidays inspires you to get all artistic, you could sample the Louvre or the Uffizi. You'll see the greats, but crowds of tourists make it hard to get up close. Instead try Germany.

Until 10 June, the Museum Frieder Burda in Baden-Baden hosts an exhibition of William N Copley's collection. The American artist, author and gallery owner's interests spanned the surrealist and pop art movements from the 1940s to the 1970s. The exhibition includes both a fine surrealist collection and Copley's own exuberant work, with many pieces shown publicly for the first time.

The Brenners Park-Hotel & Spa in Baden-Baden offers an Art for Connoisseurs package which includes two nights in a room overlooking the historic Lichtentaler Allee arboretum. That price also includes two breakfasts, a three course dinner in the hotel's Wintergarden Restaurant, use of the spa, access to the Museum Frieder Burda, the Museum of 19th Century Art and Technology and the Belle Epoche Casino.

Art for Connoisseurs package, €595 per person, *brenners.com*

PEACEFUL PURSUITS

If long hours and demanding clients have eclipsed your me time, the Inner Peace packages at Kempinski Hotel Barabos Bay will return you to serenity. Set on a glorious bay in Bodrum, Turkey, the hotel's three-day programme includes a different reviving experience each day, from traditional reiki to the more out there "healing voyage of colour therapy". Guests can also use the Six Senses Spa, with pool, sauna and Turkish bath.

People don't just come to Bodrum to relax. The town is an exciting mix of old and new, with all the bustle of a thriving market. Take a step back to medieval times at Bodrum Castle of St Peter, founded by the crusading Knights of St John in the 15th century. Or take a trip to Ephesus, the magically preserved Roman town.

Watersports are ubiquitous – hire a traditional gulet for a boat trip up the coast, or get a bit more active and dive in the azure waters. Whatever relaxation means to you.

Three-day package from 475 Turkish lira (£184), *kempinski.com/bodrum*

OR YOU COULD TRY...

El Gouna
Egypt's most environmentally friendly resort offers white beaches, unique architecture and a feeling of virtuousness.
elgouna.com

The Riding Club
Reawaken that childhood love of horses – this private members' club offers weekend riding breaks in the English countryside.
ridinglondon.com

Claymoore Canal Holidays
Take a tour of the regenerated waterways of the north west at a slow, slow pace.
claymoore.co.uk

MIGHTY ICE

Demand for the world's most portable form of wealth is on the rise. So, **Claire Adler** asks, could diamonds be an investor's new best friend?

Nothing beats holding a flawless 30-carat D diamond. This tiny thing could assure the financial security of a couple of generations of your family.

Robust returns on diamonds of more than one carat, mounting demand from Asia and the prospect of mines running dry generates much talk about their investment potential.

High-profile buyers pay recession-busting prices. In 2008 jewellery billionaire Laurence Graff paid a record price for any jewel at auction: $24.3m for the 35.56ct Wittelsbach blue diamond. Last year, he secured a 24.78ct pink diamond for $46m.

Jewellery boss Alisa Moussaieff views rare pinks, blues and greens as excellent investments. She owns the largest fancy red diamond in the world at 5.11ct.

Diamonds can help safeguard a future. When Bernie Madoff found himself under penthouse arrest with his assets frozen, he sent jewellery and accessories to his brother and son.

In the following months, Madison Avenue jewellery-buyer CIRCA sent armoured cars to retrieve jewels from many of Madoff's victims, forced to sell to raise cash.

Bain & Company claims investment diamonds have a sparkling future as mines deplete their stocks. Demand will outstrip supply by 2020, driven by the growing affluence in India and China.

Rough and polished diamond prices hit record levels last year. Top-quality five-carat gem prices rose to about $150,000 per carat, up from $100,000-$120,000 a year earlier.

Investing is easy. The Rapaport Group puts diamond portfolios together for individuals and companies, charging 5% to 10% commission. Diamond Capital Fund, a regulated professional investor fund, requires a minimum investment of $75,000.

Investor relations director Peter Langdon says it trades one- to five-carat diamonds, "a market supported by stable demand, regardless of the economic climate. In the past 10 years, diamonds of this weight have appreciated 8.2% each year, while investments in the FTSE100 yielded an average return of 0.7%."

Diamond Circle Capital Fund (no relation), founded in 2008, is listed on the London Stock Exchange. It invests in stones valued at more than $1m. In 2011, the fund's total value increased by 5.11% while platinum lost 19.1% and the Liv-ex 100 Fine Wine Index lost 14.8%.

Accounting for inflation, diamond prices are still below their 1980s peak. Advocates of diamond investing say that spike was caused by De Beers holding back supply, but prices are today driven by high demand in a time of limited resources.

Every investment carries risk. If investing in diamonds doesn't appeal, maybe investing in jewellery will – there's a lifetime of pleasure in adorning yourself while you hedge your bets.

Chelsea jeweller Kiki McDonough, whose clients include Catherine, Duchess of Cambridge, jokes, "A good diamond jewellery investment is if your wife wears the piece every day for four years. I advise investing in the recipient of the jewellery."

TOP TIPS FOR DIAMOND INVESTORS

1 "Find a trusted adviser and don't buy diamonds retail," says Capital Diamond Fund investor relations director Peter Langdon.

2 Ensure diamonds are ethical, and accompanied by certificates from a recognised laboratory.

3 When investing in a portfolio, contact an expert to help with VAT, storage and insurance.

4 If investing in jewellery, buy what you love and do thorough research. Signed brand pieces have increased resale value.

5 Not all D flawless diamonds are equal - the cut influences price. Better cuts yield greater price-per-carat than larger, but poorly cut stones.

ADRIAN KOH, MILK PHOTOGRAPHIE

AND BREATHE...

Top yoga teacher **Anna Ashby** introduces a little calm into our busy lives

Inhale. Exhale. Work compels and consumes. The endless lists of things to do and pressure to perform can lead to levels of stress that adversely affect your health. Stress hits the nervous system but the tension it causes, combined with sitting at a desk for hours, leads to pain that undermines quality of life.

Enter yoga. Yoga is a diverse set of practices that anyone can do in any amount of time. Ten minutes can bring about a grounded, centred and relaxed state, allowing you to be calmer and more productive. Going to a yoga class is one starting point, but there are other ways to bring yoga into your life.

POSTURE

Yoga teaches awareness of posture. A slumped posture affects your ability to focus.

So sit up and stretch your spine. Move your shoulders back and down away from your ears. Relax your face and tongue. Make sure your screen is at the right level for your gaze and that your body does not twist to reach the keyboard. When you have a stance that is steady and open, it affects the way you feel.

STRETCH BREAK

Take five minutes every couple of hours to stretch. The body wasn't designed to remain immobile for long periods, it creates tension.

When wholly absorbed in a problem, you forget about your body. Unconscious tension activates the fight-or-flight part of your nervous system. The body gives the brain the message that all is not well and the result can be anxiety and feeling impaired.

By pausing, stretching and breathing, you refresh your body, release tension and give your mind a break.

BREATHE

Stress and tension forces us to hold our breath, which also activates fight-or-flight.

Focusing on your breathing deepens it. Relax your solar plexus and allow your diaphragm to move freely. Deeper breaths activate the part of the nervous system that restores and renews. It's immediately calming.

MEDITATE

The mind needs rest too. Just as the body renews itself through sleep, the mind refreshes itself through meditation. Simply pausing and taking five or 10 minutes to meditate can improve your ability to respond to a situation in the right way at the right time.

Meditation is not difficult. Find a quiet space where you won't be disturbed, close your eyes and focus on your breathing. Let your thoughts flow without resistance or judgement.

As you become adept at turning your focus inwards, the mind learns to settle and rest. This makes a big impact on your creativity and sense of wellbeing.

ANNA ASHBY
Anna has been practising yoga for more than 20 years and teaching for at least 10 of those. She teaches at triyoga in London (triyoga.co.uk), Europe's largest yoga centre. For more information on Anna's classes, workshops and retreats, visit her website annaashby.com


1


2


3


4


5

DAN MURRELL

FIVE QUICK STRETCHES

Try these simple exercises throughout your day to help you relax and re-energise.

1 MOUNTAIN POSE
Stand upright with your feet hip-width apart and parallel. Push your feet down and stretch upwards through the crown of the head. Relax your shoulders and your face. Take several deep breaths.

2 ARM SWEEPS
Inhale and sweep the arms up over the head; exhale and release the arms down. Do this several times, coordinating the sweep of the arms with the breath.

3 FORWARD BEND
Place your hands on your hips. Bend the knees and softly fold forward. Place your hands on the shins. Relax your neck. Take several breaths. With each exhalation, relax your spine.

4 STANDING BACKBEND
Place your hands at the back of the pelvis. Roll your shoulders back and lift your chest. Push your tailbone down. Breathe into the front of the body several times.

5 TWIST
Sit on the front edge of your chair. Stretch your spine. Reach around and hold onto the side and back of your chair. Inhale, stretch. Exhale and gently twist. Take two or three breaths, then release back to centre and do the other side.

NEXT MONTH We look at a selection of the latest exercise classes to get you moving

SIX OF THE BEST

ETHICAL TREATS

Responsible consumption begins at home but that doesn't mean denying yourself those little luxuries. Enjoy these ethical indulgences with a clear conscience

1 BULLDOG
Eco-System Moisturiser
Good enough to eat, this hydrating marvel bursts with Fairtrade ingredients, including organic shea butter from Ghana, sesame seed oil from Nicaragua, and Brazil nut oil from Peru. Winner of Men's Best Face Cream in *Cosmopolitan*'s 2010 Beauty Awards, you'll have trouble keeping the lady in your life away from it. **£7.49 for 100ml.** ***meetthebulldog.com***

2 WESTERHAM BREWERY
William Wilberforce Freedom Ale
First brewed to commemorate the 200th anniversary of the abolition of the slave trade in 1807, this could be the most ethical beer ever. Wilberforce made his pledge to outlaw slavery a few miles from the Kent brewery. The brew uses fairtrade Malawi demerara sugar – supporting farmers in an area from which many were sold into the African slave trade. **£2.05 for 500ml.** ***westerhambrewery.co.uk***

3 ARENA FLOWERS
Bouquets
A registered Fair Flowers Fair Plants provider, Arena buys its blooms direct from growers in Africa and Holland. This eliminates the middlemen and increases profits for the suppliers, who pass them on to their workers. Its stunning bouquets can be created on its website by price or occasion, and have won it an Ethical Award from the Ethical Company Organisation. **Priced from £22.98.** ***arenaflowers.com***

4 FAIR.
Vodka
The first Fairtrade-certified vodka in the world, FAIR. is made from super-food quinoa, sourced by this French distiller from Bolivian farmers in the Andes – which means it's almost good for you. Named Best Tasting Vodka at the New York Spirit Awards, there's nothing guilty about this pleasure. Make a screwdriver without putting the screws on. **£35 for 70cl.** ***fairspirits.com***

5 GRUMPY MULE
Organic Peru Café Femenino
Winner of a two-star gold in the Great Taste Awards 2011, this toasty, nutty, after-dinner Fairtrade coffee is organically and shade-grown by smallholders in a remote region of the Andes, where the local co-op helps farmers to purchase land. Some 30% of the growers are women who are paid a premium above the Fairtrade price, exclusively for them, under the Café Femenino Coffee Project. **£7.59 for 250g.** ***grumpymule.co.uk***

6 OMBAR
Superfood chocolate
Chocolate that's good for you. No, really. In addition to the natural antioxidants found in cocoa, Ombar raw chocolate is packed with superfoods, low-GI coconut sugar and added probiotics. And every bite is a piece of ethical heaven, with the Ecuadorian cocoa coming from small-scale farmers who are paid a premium over market price. Go goji berry, acai & blueberry or pure 72% cocoa indulgence. **38g, £2.03.** ***ombar.co.uk***

AROUND THE WORLD IN THREE MEALS

Neil Davey runs the rule over what's served up in three culinary corners of the world

BREAKFAST: US

Tanque Verde Ranch, 14301 East Speedway, Tucson, Arizona 85748

The perfect meals are where it all clicks – the company, the setting and the circumstances – as it does on the breakfast ride at Tanque Verde Ranch.

You start on horseback. Ricochet, the largest horse I have ever seen, was in charge; I was along for the ride.

Thanks to expert staff, this is a joyous hour of fresh air and appetite building. And you'll need the latter for the spread of American and Mexican classics that awaits – steak, sausage, blueberry pancakes, *chilaquiles* (fried tortillas dipped in salsa or mole)... Some get a cowboy twist, such as cinnamon buns caramelised in a cast iron pan over an open fire.
tanqueverderanch.com
Tel: +1 5202966275

PRICING

Tanque Verde Ranch breakfast ride, $75 if booked separately

Kazahana eight-course Kaiseki Yumeshizuku menu, ¥23,000 (about £230)

La Grenouillère 11-course Discovery menu, €110 (about £100)

LUNCH: JAPAN

Kazahana, Conrad Tokyo, 1-9-1 Higashi-Shinbashi, Minato-ku, Tokyo 105-7337

The *Lost In Translation* hotel is home to several restaurants, including the Japanese-with-a-twist approach of Kazahana.

Views over the city 30 floors below are stunning. As is the food, which tastes almost as good as it looks, particularly lily bulb potage soup, a miso dotted with rape blossoms, stunning *wagyu* beef and an elegant sashimi platter.

The *kaiseki* (tasting) menu features a few challenges – fermented beans – but expectations are defied. Eight courses dance all over the taste receptors and leave you re-energised.

My joy could have been down to adrenaline from eating *fugu* (blowfish) – the one that could kill you if incorrectly prepared. More likely it's careful pacing and the focus on clear flavours.
conradhotels3.hilton.com/en/index.html
Tel: +81 363888000

DINNER: FRANCE

La Grenouillère, Rue de la Grenouillère, 62170 La Madelaine sous Montreuil

Sometimes ambition needs reining in. Alexandre Gauthier kicked his father's auberge La Grenouillère, 70km south of Calais, into the 21st century and when things are good, they're great. *Tasse d'eau de mer* is monkfish in home-made seawater (really) with skin of cucumber: it's dazzling. *Fraises verte* pairs green strawberries, basil and cucumber flesh to form a magical combination.

Dessert leaves you giggling. Billed as *bulle d'oseille* (sorrel), it is a plate of those leaves. Bemusement turns to amusement when a passing waiter lobs you a glass bowl. The glass is sugar, the contents a banana sorbet. The combination is breathtaking.

A shame the other courses are terrible. Beef comes with inedible artichoke. A mustard leaf salad is overpowering, dotted with flavourless, chewy duck tongues. Worst is *chanvre* (hemp) – a bland pasty filled with flavourless cream served on a piece of damp rope. Er, quite.
lagrenouillere.fr

Above (*clockwise from left*): the interior of Kazahana at the Conrad Tokyo hotel; on horseback in Arizona; adding a few fine flourishes at La Grenouillère

THE MEASURE

HOW TO FIND THE FINEST LUGGAGE

Whether it's wheeled and lightweight, polycarbonate or plaid, bespoke or budget, there's a plethora of smart luggage options on the market for the discerning traveller. Here's what's caught our eye lately

MISSONI FOR BRIC'S

For lovers of anything Italian, the luggage collaboration launching this spring between Bric's and Missoni will set pulses racing. Pairing the sleek practicality of Bric's travel bags with the recognisable colours of trendy Missoni, the collection includes seven unique pieces. The limited edition 21-inch carry-on trolley has wheels, lots of space inside and an ample front pocket. **£441**

PANZER 1890 TROLLEY CASE, 26"

This unconventional-looking suitcase is a bit Jason Bourne – durable, strong, manoeuvres well (it has 360º wheels) and tough on the exterior. Inside there are internal zipped dividers, accessory pouches and a clothes hanger. There's also a TSA (Transportation Security Administration) approved combination lock. One for travellers with a sense of adventure. **£259.99**

HANDMADE LEATHER WEEKEND BAG BY GOLDEN SOUK

With its vintage looks and fabulous Marrakech-influenced colour you'd never guess that this handmade bag is priced at under £100. Perfect for weekends away it features a handy over-the-shoulder strap, three pockets and a zip opening on top. And you won't have to barter for it. **£78.50**

GLOBE-TROTTER CRUISE ROYAL & NAVY 18" AIR CABIN CASE

Established in 1897, Globe-Trotter products are handmade to order in Hertfordshire using original manufacturing methods. The company likes to collaborate with other heritage brands, so look out for special editions. It also has a bespoke service in its flagship store in London. This little beauty is part of the Cruise collection, inspired by yacht races in the Isle of Wight. **£625**

SAMSONITE BRIGHT LITE DIAMOND, 20"

Nobody wants crushed luggage, so Samsonite has designed a new range of extra-strong travel bags that marry stylish design with a robust functionality. They claim to be the toughest on the market, using damage-resistant shells made out of "virgin" polycarbonate to protect goods. They are also great value for money and come with a 10-year guarantee. **£155**

TANNER KROLLE BESPOKE AND CUSTOM MADE

If it's exclusivity you seek then commission a craftsman to bring your own concept to life. By appointment, expert leather goods maker Tanner Krolle will make your luggage in whichever design, colour and material you wish. It will also customise from its core collection, offering personalised colours, linings and other finishes. **Prices on request.**

Also this month: Etro's patterned ties and pocket squares; Rag & Bone's Keaton sunglasses; heritage brand Wolsey's jackets; Chanel's new fuschia nail colour

TRUNK ARCHIVE, BELA BORSODI

Recruitment

To advertise your vacancies
please contact the sales team
icaewjobs@icaew.com
+44 (0)20 7920 8535

economia

BRINGING YOU THE LATEST POSITIONS FOR CHARTERED ACCOUNTANTS

icaewjobs.com

NEWLY QUALIFIED ACCOUNTANT

Talented newly qualified accountant required from either business or practice. Your responsibilities may include management accounts preparation, IFRS conversions and technical accounting, audit preparation, due diligence, implementation and documentation of controls and procedures and financial modelling and forecasting.

London £38,500 (plus significant bonus potential)

Apply at www.icaewjobs.com or email recruitment@whalerock.co.uk

EXPATRIATE FINANCE/LOGISTICS COORDINATOR

HALO has over 3,800 national staff in Afghanistan conducting mine clearance and explosive ordnance disposal. Working with senior Afghan management you will have experience in donor aid budget management and stock and capital equipment control. You will also have excellent English writing skills, and the necessary tact to assist in the development of senior administrative staff.

COST AND CONTRACT ASSURANCE SPECIALIST

Crossrail is an ambitious new railway for London and the South-East. We are currently seeking a motivated Cost and Contract Assurance Specialist to help provide assurance over costs claimed across the capital investment programme. This is a once-in-a-lifetime opportunity to make a significant contribution to the UK's transport infrastructure, and the quality of life in London and the UK as a whole.

GROUP REPORTING ACCOUNTANT

A world leader in technology solutions e2v continues to grow and prosper as an international innovator, delivering technology solutions for high performance systems. The purpose of this role is to ensure e2v have the required tools and processes to deliver high quality group management and statutory reporting in a timely fashion.

Chelmsford, Essex, £45,000 - £55,000 + Benefits

Contact Tom at 01245 708808/Tom.Earl@prs.uk.com

BV Recruitment is a boutique agency specialising in public practice recruitment for all the leading accountancy firms in London and within the M25. We provide an innovative and results driven approach to the recruitment process for both candidates and clients across all levels and disciplines.
Please view our vacancies on the ICAEW website or visit www.bvrecruitment.co.uk

Brewer Morris was established in 1987 as the UK's first recruitment consultancy to focus exclusively on the recruitment of taxation professionals. We are firmly established as a market leader and take great pride in the enormous number of long-term business relationships that we have developed throughout the tax and treasury world.
Please view our vacancies on the ICAEW website or visit www.brewermorris.com

Jennings Morton Friel Associates are independent accountancy recruitment consultants. Established in 2002 we place professionals such as, Finance Directors and Controllers, Group Accountants, FP&A Managers, Management and Financial Accountants. Our client base extends across London, Kent and Surrey.
Please view our vacancies on the ICAEW website or visit www.jmfassociates.co.uk

ONE-TO-ONE CAREER ADVICE

Whether you're looking for advice on taking your career in a new direction or need help creating a stand-out CV, the ICAEW's career consultancy service offers personalised advice for the accountancy and finance market. Delivered by ICAEW member and career coach Bob Griffiths, each one-to-one consultation is tailored to the needs of the individual.

Book your consultation today at www.icaewjobs.com

To apply for any of the above positions please visit **icaewjobs.com**
Or search by recruiter name to view all of their current vacancies.

ICAEW JOBS

TO ADVERTISE YOUR VACANCIES PLEASE CONTACT THE SALES TEAM
TEL: 020 7920 8535 EMAIL: ICAEWJOBS@ICAEW.COM

Business directory

To advertise within the Business Directory please contact Emily Bromfield
emily.bromfield@progressivecp.com
+44 (0)20 7936 6710

Company Search & Formations

Company Restorations

Fee Billing Software

Mergers & Acquisitions

Mergers & Acquisitions

Business directory

**To advertise within the Business Directory
please contact Emily Bromfield
emily.bromfield@progressivecp.com
+44 (0)20 7936 6710**

Company Search & Formations

Company Restorations

Free Billing Software

Mergers & Acquisitions

Mergers & Acquisitions

Mergers & Acquisitions

Outsourcing

Legal

Software

Training & Courses

RICHARD ANSETT

LIFE AFTER WORK

THE ENERGY MAN

Graham Ward CBE retired because he wanted to contribute more to society. He talks to **Xenia Taliotis** about his work for the UK's international aid programme and the World Energy Council

For many people, retirement brings the opportunity to pursue interests they'd put aside while working. But for Graham Ward CBE (awarded in 2004 for services to exports), retirement at 57 in 2010 only yielded a small reduction in the hours he works.

Appointed chief commissioner in October 2010 of the new Independent Commission for Aid Impact (ICAI), he has many other roles, including vice chairman of the World Energy Council, financial advisor to St Paul's Cathedral, and a seat on the Executive Council of the Parliamentary Group for Energy Studies.

"I retired from PwC because I wanted to do so much more," he says. "That involves spending more time with my wife Ann and our son Alexander, but it also means putting my skills into a range of activities that will, I hope, make a difference to others."

The Oxford University chemistry graduate and boxing Blue gained those skills in an unrelenting 36-year career. He joined Pricewaterhouse in 1974, was president of the International Federation of Accountants (2004–06); president, ICAEW (2000–01); and director, Electricity Services Europe (1990–94). And that's just a taste.

The 1990s must have been exhilarating? "The electricity companies floated and I had expanded Electricity Services Europe to a global group with a turnover of nearly $1bn a year," he says. "We operated in 100 countries. For years it was almost like having two jobs."

Now, Graham is committed to the World Energy Council, which promotes sustainable energy supply and use. Because as he explains, it's "imperative" to address the "sad fact that one third of the world's population has no access to electricity."

"Retirement means putting my skills into a range of activities that will, I hope, make a diference to others"

But ICAI, launched last May, takes up most of his time. It is the perfect vehicle for someone determined to put his talents to good use. "The overseas aid budget is set, so every pound must be used as effectively as possible," he says. "ICAI is an independent, transparent body reporting to the House of Commons – it is unique in the development world. We'll produce a series of objective reports on corruption, climate change and health which will help the Department for International Development deliver maximum value to UK taxpayers."

Will he at least find time to celebrate his fast-approaching 60th birthday? "That's in Ann's hands," he says. "I believe she's planning a wonderful surprise."